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ASIAN WEALTH MANAGEMENT

Issue 1, 2017

Tan Su Shan
DBS Bank

How to survive the next 10 years in Asia

EVENT HIGHLIGHTS
Compliance, Dubai, Hong Kong, Independents

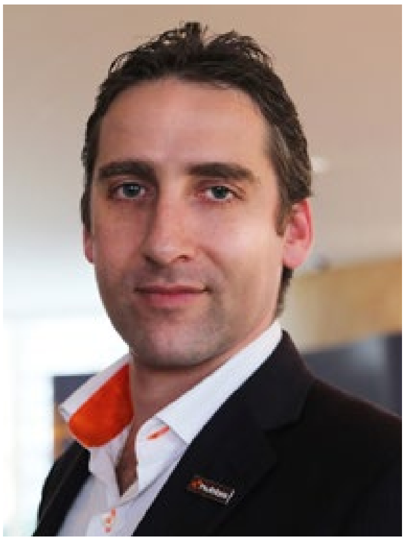
HOW TO BE COMPLIANT
Finding the right balance for the business

PRC HNW CLIENTS
Capitalising on wealth across borders

DIGITAL IMPACT
Is disruption knocking on Asia's advisory door?

MIDDLE EAST SEGMENT
Taking GCC wealth management forward

Foreword



This is the latest edition of our Quarterly publication covering Asian wealth management.

This is being produced at a time which is probably the most difficult ever for the wealth management and private banking industry in Asia.

The last 12 months have been particularly tough, and the challenges that firms face are mounting.

From the economic environment, tax amnesty and regulatory scrutiny, to the debate over onshore versus offshore, and the continued hunt for both talent and growth – chief executives are reconsidering their business models, along with the strategic choices they need to make, in order to remain relevant.

The content in this issue should be relevant to anyone who is serious about building a sustainable and profitable wealth management business in Asia.

The blurring of the lines between the various types of organisations operating in this space also brings with it areas of overlap and commonality.

To cater to this, the publication covers Private Banking, Retail Banking, Independent Wealth Management, Family Offices, Insurance, Asset Management, Technology, and also Professional Services.

Asian Wealth Management is created in conjunction with – and for – senior management, product gatekeepers, business heads across compliance, operations, technology, advisory and sales, and other key stakeholders from the top international, regional and domestic organisations across the community with which Hubbis has worked hard over the past six years to build relationships and enhance connectivity.

ANDREW CROOKE
EDITORIAL AND CONTENT DIRECTOR
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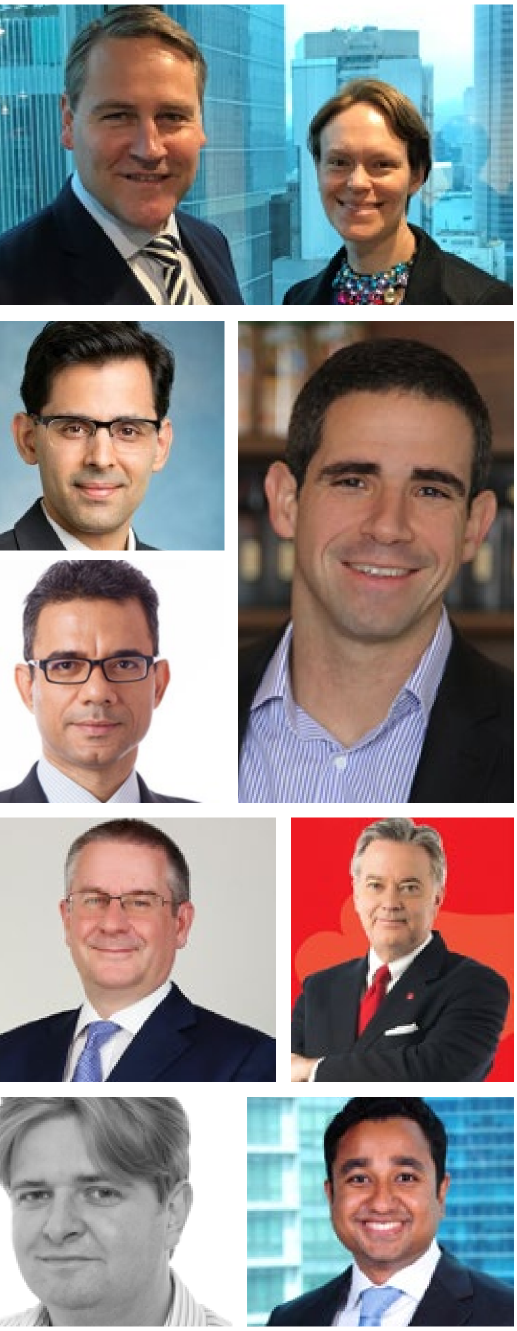



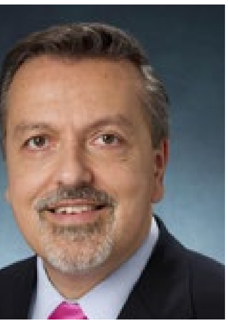




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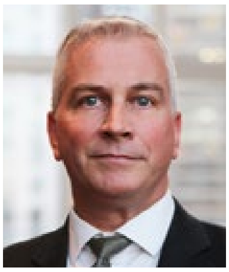

Practice Management

Middle East Wealth Management

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70%

UBP's cost-income ratio of just under 70% is evidence that the model works.
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USD10 mn

JPMorgan has a very clearly-defined strategy to provide private banking services to people that have USD10 million in investible assets with it.
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5 years

End-to-end digitisation might take up to five years, due to the stubbornly-high costs of back-office systems migration.
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500

Three years after SEBI issued its investment adviser regulations, only just over 500 licences have been issued.
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USD136 mn

Emirates NBD has a three-year AED500 million (USD136 million) strategy to improve its processes, products and services.
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610,000

The latest figures from Capgemini Financial Services Analysis, pinpointed a HNW population of 610,000 in the Middle East in 2015.
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- FAMILY WEALTH
- TECHNOLOGY

Looking from the outside in

The DBS Bank wealth management mantra is that being fully digital yet embedded within the daily lives of its customers is the only way it will survive the next 10 years. Tan Su Shan is leading the charge.

The challenge for the wealth management industry today is to understand what the customer wants. Organisations must then take a leaf out of the book of the best client experience designers – the 'Googles' of the world – to create a truly lasting relationship by being relevant, timely and simple.

This highlights just how wrong the starting point has been for many private banking institutions to date in Asia. Many of the newer industry players (some of whom have already exited Asia) were offering the same kind of solution – an open platform with various wealth management products to choose from.

Yet as the cost of doing business continues to rise, differentiation is key, urges Tan Su Shan, group head of consumer banking & wealth management at DBS Bank.

This is in terms of the digital architecture, how intuitive a firm can be to meet both the personal and business needs of a client, and being able to merge the physical and digital channels to be contextual, timely and simple.

On its current trajectory, the private banking landscape will become increasingly polarised. The largest institutions will just grow bigger, and the smaller firms will either focus on their existing niche, or leave the industry.

And within the bigger players, the fight is to win customer mindshare and be relevant. "This cannot be done just through traditional channels and hiring expensive bankers with big guarantees," says Tan, adding that this is disruptive; it upsets the ecosystem internally, plus clients can suffer from the distraction of their banker being uprooted.

She is therefore adamant about her goal: winning the digital game. "This means gaining market share to stay alive and stay ahead."

TAN SU SHAN
DBS Bank

INTIMACY OF INSIGHT

DBS has already been enthusiastically embracing more of a fintech philosophy, at all levels of the organisation.

This started via 'eWealth' (which later evolved to 'iWealth') around five years ago. And Tan's team from those days remains intact.

Then, in 2014, the bank made a public commitment to invest SGD200 million over three years in digital banking.

It has since rolled out countless initiatives, including RM Mobility, which provides relationship managers (RMs) with an integrated mobile platform used to engage customers from the very beginning of their banking experience with DBS.

It now engages in best practices used in consumer industries such as usability testing, human-centred design and 'Uber-like ratings to solicit constant feedback from its clients.

"We do everything through the customers' lens, and everything we design and build begins and ends with our clients in mind," explains Tan. "Whether it's integrating their banking accounts and wealth portfolios in one single dashboard, keeping track of the markets or learning about opportunities, we are putting the bank in the palm of their hands."

She believes the 'winners' of tomorrow will be those organisations and individuals which understand digital intimately. This means how to connect the dots, with both clients and partners in mind, for all the various aspects of the service and offering.

In Tan's view, banks must use the new tools available to drive change in terms of the culture of the people. This goes way beyond coming up with a funky app; it is about complete immersion in the digital world on a daily basis. "The more intuitive the digital channel, the more likely a bank is to win the wealth management race," says Tan.

DRIVEN BY DIGITAL

Despite her near-30 years in financial services and private banking, Tan seems to think like a millennial.

Yet this is of little surprise given how engrossed she – and the whole of DBS – has been in furthering its digital transformation agenda.

The latest enhancement to its wealth offering came in February 2017 when the bank launched what it called "a first in Singapore", by enhancing its 'DBS iWealth' platform.

The new and improved service allows clients to conduct their banking transactions, manage their wealth and also trade on a single platform (see box).

Already more than 70% of DBS' wealth clients are online and use mobile banking, actively managing their wealth on these digital channels. This translates to over 2.6 million (online) and 1.5 million (mobile) users – the largest numbers in Singapore – and accounting for more than 1.6 million transactions daily across the bank's digital platforms.

The bank says that its customers' mobile activity also leads the industry in Singapore; it already accounts for more than 60% of DBS' 500,000-plus daily logins. And in 2016, around 25% of its wealth management clients were acquired online via 'DBS iWealth'.

BRANCHING OUT

The digital ambition of the bank also spans the Asian region. This was reflected, in part, by its decision in the latter part of 2016 to buy the wealth management and retail banking business

iWealth win-win

Now also available to wealth management clients (DBS Treasures, DBS Treasures Private Client, DBS Private Bank) via a mobile app, the latest enhancements made to 'DBS iWealth' were implemented after a number of intensive client feedback sessions.

The enhanced wealth platform empowers clients with quick and intuitive access to services, product information and research.

For example, clients can personalise their profiles and customise quick links. Insights and analysis can be tailored according to clients' preferences and holdings, allowing them to manage their wealth and stay updated on market trends while on-the-go.

Equity trading and funds investing have also been incorporated into the platform, enhancing the range of customer investment needs that can be instantly fulfilled.

On the mobile app, clients can toggle between their banking, trading and wealth management portfolios without having to log in and out of different apps.

"By leveraging Big Data, biometrics and intuitive design, we are focused on delivering relevant advice in a timely manner," says Tan. "For the new 'DBS iWealth' mobile app, we tested it with over 3,000 clients before rolling it out to all clients, and we believe it will give them a faster, smarter and more personalised way to manage their wealth."

of ANZ in five markets – Singapore, Hong Kong, China, Taiwan and Indonesia.

Ensuring a smooth integration is one of Tan's priorities, as the bank aims to complete this from June 2017 onwards over the following eight to nine months.

The boost to the bottom line at the time was one thing – with total deposits of SGD17 billion, loans of SGD11 billion, investment AUM of SGD6.5 billion and total revenue of SGD825 million for FY2016. And around 100,000 affluent and private wealth customers will likely be added to the DBS brand.

But in Taiwan and Indonesia, in particular, the transaction made strategic sense in terms of enabling DBS to much more rapidly scale-up its digital proposition on the back of ANZ's investment and innovations in these two countries.

DEDICATED DESIGN

Tan believes that the approach DBS takes has been a big contributor to its overall digital success.

From tracking the eyeballs of customers who do testing in its lab, for example, it can monitor where they look, which colours they find most alluring, and also what words or images attract them to a greater or lesser degree.

From this, the bank will determine how to provide alerts to customers, and the type of contact they prefer.

Further, in its own internal development meetings, it tries to limit the number of participants to 12 individuals who are dedicated to the digital cause.

The bank also calls on its managing directors to take the lead in running the many client 'journeys' it embarks on – which might range from travel to KYC to wealth to retirement, for instance.

The underlying philosophy very much heeds the Chinese saying which refers to the concept that 'the mother of failure is the mother of success'.

"The more intuitive the digital channel, the more likely a bank is to win the wealth management race."

Tan certainly shares the view that it is important to try new things, even if that means failing along the way.

REFINING THE PROPOSITION

Although the Watson collaboration couldn't be described as bluntly as that, clearly DBS has learnt that some innovations and changes in mind-set take longer than others to get right.

The bank might have been a little early to bring this level of artificial intelligence (AI) to wealth management, given the number of non-facts based judgement calls required in delivering high-quality advice. But the efforts and time spent on the project highlighted the potential for AI to learn quickly.

And DBS hasn't wavered in its priority to continue on its digital path with a commitment to be relentless in the pursuit of the customer journey and knowing what the client wants.

Plus, it has focused on ensuring that its RMs buy-in to the blended, multi-channel approach. "When this happens, the chances of success are much higher," adds Tan. For example, by incorporating the best of its retail business within the wealth offering, all RMs now operate from iPads, ranging from investment objectives to insurance products.

"We want to create stickiness by being embedded in the everyday lives of our customers," says Tan. "We also need to ensure everything we do is contextual, to make it relevant to each customer. We want our customers to feel we know them and what they need." ■

Navigating a new private banking reality in Singapore

A private gathering of business leaders from Asian private banking – co-hosted by Thomson Reuters and Hubbis – highlights the need for a practical approach to tackle the multi-pronged challenges of compliance, client trust and carving out a niche in order to find sustainable avenues for growth.

Two models are very clearly emerging in the tougher and more cut-throat private banking landscape.

The first is more along the lines of a universal approach, either by international or regional players, offering a one-stop-shop across a range of services. This also includes a highly-commoditised service offering for most clients up to the UHNW segment.

On the flipside, this creates a depersonalisation of relationships at some banks – in the aim to reduce costs and increase efficiency via greater commoditisation – according to some business leaders. The other model, at the other end of the spectrum, involves the more boutique players with niche offerings.

These firms have become more and more focused over the past few years as they realise it is not viable to be all-things-to-all-people.

Ultimately, to succeed, senior industry executives believe an institution must be clear on what it does well and where its key strengths are, and then only do this. These were some of the views at a thought-leadership discussion with private banking leaders in Singapore, co-hosted by Thomson Reuters and Hubbis.

Beyond certain hygiene products and services, there needs to be a reason for a client to look to that bank over another, they believe.

Relationship managers (RMs) can still be a key part of this point of differentiation, which some banks view as important and a sign that client relationships cannot be entirely institutionalise without potentially losing some of the value-add on offer today.

A commitment to the markets the firm is engaged in is also key as a success factor going forward.

This is measured in the sense of investment in the resources and infrastructure needed to develop the offering. This hasn't been the case in the past three to four years as many players have entered and exited markets relatively quickly.

DEALING WITH THE COMPLIANCE BURDEN

In the past 12 months, it hasn't been unusual for some institutions to see the number of compliance resources they needed in Hong Kong and Singapore double; certainly the cost has risen by such an amount.

In particular, the Hong Kong landscape a lot more challenging regulatory environment, especially when it comes to suitability.

And solutions to compliance challenges via pre-trade suitability and self-selection of products are easier said than done. Would a utility work? Is there

any way to use KYC and other requirements to differentiate via the risk management and compliance function?

Getting compliance professionals to become more business-like is one way to try to reduce the account-opening process and new client boarding.

Getting issues on the table and discussing them in a more open way internally at the outset, to understand specific nuances of each case, can help to highlight problems or stumbling blocks. It can be an effective way to pinpoint accounts which will not be feasible to onboard at all, say some senior management. In turn, this then makes it quicker to advance and onboard those clients where there is more of a win-win.

This also highlights the importance of having more experienced individuals in the compliance role, and people with a diverse background, not just banking.

The biggest challenge, however, comes from trying to 'clean' out the legacy book of clients and the need to apply today's standards.Indeed, the tolerance to risk within an institution cannot be out of line with what the regulator prescribes or asks for, say business leaders.

This is particularly the case for foreign banks where headquarters might make certain demands which need to be factored into the local regulatory and compliance environment.

GETTING PAID IN THE RIGHT WAY

There also continues to be a questionmark over the extent to which private bankers are capable of rising to the challenge and delivering the type of advice or breadth of solutions required will be forced out of the industry. This is required to ensure organisations get themselves into a position to charge for certain aspects of the advice they give. This already happens with some of the better-quality bankers – but it is nowhere near widespread enough.

While there is no expectations that clients move in large swathes into discretionary, the proportions will move in the favour of managed solutions. This is inevitable give the performance and returns have been harder to come by over the past couple of years.

Those private banks which have already managed to amass a higher percentage of their book under discretionary advice have done so due to a genuine focus on longer term relationships.

Experience in working with the same clients over time is a key success factor. Yet the fact that the number of private bankers in markets like Singapore and Hong Kong is falling, raises questions about how to ensure there is a consistency around the approach taken to client relationships.

IN SEARCH OF TRUST

This is at odds with what many clients want from their private banker today. Industry leaders say clients want to trust someone – whether this is the institution or the individual RM.

They want to bank either with an institution with the right brand and approach, or simply with the individual they know and who understands them.

This all points towards the importance of advisers spending more time on, and paying more attention to, winning the trust of their clients. Being there for the long term, to service their clients, and not just for themselves, will make a difference going forward. ■

Developing a digital blend

According to a number of business leaders, the question about the role of technology as an enabler of investment and wealth management services is only effective if there is the added dimension of human intervention.

The industry is not yet ready for digital offerings to take away the personal relationships, say some senior executives.

For example, they see many grey areas where emotional aspects in relation to wealth planning, the family business and other personal matters require a tailored approach – or at least a conversation.

Further, when markets are down and people can feel the pinch in their portfolios, some practitioners say they want to get some advice and to bounce ideas around to generate a sense of comfort.

When it comes to fintechs, in particular, the fact many will likely fail is to do with the challenges of them being start-ups – not them being financial technology providers per se.

The biggest challenge fintechs have got, it seems, is that they lack clients, yet it is expensive to get clients. So they need the right business people to make them successful.

As a result, the B2B model has more potential, although there are a lot of ideas out in the market compared with what seems genuinely innovative, viable and, therefore, likely to succeed.

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A matter of good business sense

The wave of private banking consolidation in Asia highlights the shortcomings of the traditional model today. For those who want to stay in the business, they must understand the unique formula that underscores profitability and factors in the interests of several key stakeholders, says Bassam Salem of Citi Private Bank.

It is clear that the private banking model of the past, which relied on secrecy and tax avoidance, is dead. Anyone who doesn't believe that needs only to see the headlines that scream out why a model built on these premises is only inviting hefty fines and in some cases the end of the line – the death of the business any way you define it.

Yet many banks – a good number of them European – have been unable to rise to the occasion in the midst of the industry's structural change. Challenges to their traditional proposition, even at home, has prompted and continues to lure many to flock to Asia, viewing it as their 'El Dorado' – a place of wealth and opportunity yet to be tapped.

In their throes of excitement in coming to a new place, they not only ignored the winds of change in the industry but also employed all the 'don'ts' of good business practice – over-hiring, over-paying and over-spending.

There are also a host of additional challenges that increase the cost of doing business here in Asia. These relate to investments needed in control and compliance to meet the more prescriptive regulatory requirements, as well as the establishment of a platform to deliver the range of products and services that clients expect, such as lending.

"I have never seen as much churning of private banks, both coming to and leaving Asia, as we have witnessed in the last few years."

In the case of lending, many smaller and boutique banks lack the balance sheet to meet the needs of clients who want to liquefy their illiquid wealth or to finance their real estate interests. The impact is not necessarily relegated only to the small boutique institutions. Even more established global players have been severely affected by the challenges and in many cases have exited the region altogether. From the likes of Merrill Lynch and Societe Generale – highly recognised and respected names in the financial world – to a host of other equally well-known names like ABN AMRO, ANZ, Barclays, Coutts and BSI, one can only surmise that the traditional way of conducting private

banking is no longer a viable business model. "I have never seen as much churning of private banks, both coming to and leaving Asia, as we have witnessed in the last few years," says Bassam Salem, region head of Citi Private Bank in Asia Pacific and a 35-year plus veteran of the industry.

Even amongst some of the institutions which remain today, the percentage which are profitable based solely on their activities in the region is much lower than most executives at these banks want to acknowledge or admit. "It is important that the industry recognises that the constant entries and exits taking place are not good for the overall business of private banking and that steps need to be taken to create a better understanding of what is necessary to set up a sustainable proposition, which, in the end, benefits all the significant stakeholders," adds Salem.

Basically the problems stem from an outdated model in which the strategies employed in the past are no longer valid or profitable today. The inability to recognise this as the heart of the problem and to adapt is the 'elephant in the room' for many institutions, and for the private banking industry as a whole.

These problems are allowed to fester because often times, especially for the international firms in particular, the board members and shareholders back in the home country are not being made aware of the reality of the situation in Asia.

Salem believes that if they knew the real cost of doing business in Asia, the extent of the investments needed to have the right platform – which includes not only the right products but all the associated processes and controls – not to mention the cost of staffing and premises, they would realise that the chances of success are not so clear cut. They would, in all likelihood, probably rethink their decision to expand.

CONTINUITY COUNTS

While acquisitions of private banks might boost revenues and profiles in the short term, this often means that the problems more-often-than-not get relegated to a point in the future. Yet the existing management may not worry about these because those individuals may not be there later.

In Salem's view, consolidation raises other concerns for the client. For example, clients typically share a great deal of personal information with their private banker, especially given the ever-stringent nature of the KYC process. When an institution is 'sold' to another, it means that now another institution has access to the information about the client from the bank that was sold.

Yet often times, few institutions will take the time or care to explain to that same client about what happened with that data. And in fact, it wasn't by the client's choice to necessarily bank with the 'new' institution. Given the level of privacy often prized by private banking clients, this has become an issue.

Institutions should not underestimate the negative impact of movements in staff – be they through consolidation as a result of merges or exits or lured by a 'better offer'. What matters to clients most, and especially in today's environment, says Salem, is continuity. This might well play to the advantage of the larger and more stable institutions whose long-term history and commitment to the region would make it a key selling point to clients looking for stability. Salem says he is comforted by the fact that Citi's private banking clients develop meaningful relationships with their bankers and investment counselors over many years. "This instills a great amount of trust from both sides, which is a factor that plays well in ensur-

Digitalisation: marrying the old and new

An important goal for Salem in 2017 is to consider more deeply the impact digital can have on the business. The existing development work being done is focusing on a digital platform which can finally mix technology with the unique relationship between the bankers, investment counselors and clients.

Over the last few years, the talk about digital was essentially focused on more of a retail banking model which tries to remove bankers in favor of clients interacting with an interface via iPads and other devices. However, Salem notes, clients at the Citi Private Bank level still want to talk to a human being.

Its existing offering, InView, is getting a lot of time and attention. The bank even has a lab in Tel Aviv, Israel, to analyse more closely what clients are using the app for. So far, the results have been extremely instructive, leading to a simplification of the functionality and tools which are more in line with client activity.

But now the bank is embarking on building something unique over the next few years. "Stay tuned," says Salem, with an entrepreneurial glint in his eyes.

ing that we understand the client and in turn provide them with the appropriate solutions and advice."

The bank's clients also have many touch points – if they choose – within the organisation. "This can allow them to tap on the depth and breadth of services that extend beyond the private bank and to the wider Citi platform. They do so effortlessly through the orchestration by their private banker," he explains.

In particular, Salem adds, the access and partnership with Citi's Corporate and Investment Bank provides it with the opportunity to offer clients a rich menu of capabilities that can serve a wide range of their needs in a seamless manner. "It allows for the opportunity to grow share of mind with our clients and become 'their first call' for anything they want to do."

Partnering within the organisation has additional benefits in the form of referrals, a key source of client acquisition and one of Salem's ongoing priorities. In his opinion, this is a healthier way to grow the business instead of the boom-and-bust of acquisitions. Salem also feels that continuity of the team is equally important and that client stickiness is an important differentiator when it comes to the loyalty of relationship managers (RMs) / private bankers.

Although a few RMs will inevitably leave for various reasons, senior executives at competitor institutions have noted privately that it is virtually impossible to lure a Citi Private Banker. "Very few of our core team leave," says Salem. "If they do, it is generally because they retire." Most of the team he works with, for example, have been with the firm for more than 20 years.

COST ADVANTAGE

An unprofitable business can only be sustained for a certain amount of time before it has no option but to close. The profitability of any business is important if it intends to remain open and satisfy its various stakeholders. Salem and his management team at Citi Private Bank have worked hard to achieve and maintain a fully-loaded cost-income ratio of around 60% as compared with the 80%, or often higher, for many of his competitors in the region. Some banks do not even include their head-office allocations in their calculations.

The road to this enviable achievement was not easy; it was fraught with many difficult decisions. Citi exited those hubs where the predominantly offshore business model wasn't making much financial sense any more. In doing so, Salem was able to slash the bank's cost-income ratio by about 25%. So in making any decision now to go back onshore, in any market across the region, the venture needs to be a cost-effective and money-making proposition. This is non-negotiable for him and the bank.

GRADUAL NOT GREEDY

Having experienced and witnessed many scenarios in the industry over the years, Salem feels that the most likely way forward for Citi Private Bank is steady and sustainable growth. "It is not within the DNA of Citi today to make acquisitions. We believe the best way for us to grow is to do so organically," he adds. This strategy allows them to avoid the noise associated with mergers and the inevitable hiring and firing – none of which adds any value to what they are doing – and which only serves to distract everyone from focusing on clients. Salem also doesn't like the uncertainty of whether assets will necessarily move across with an RM, as well as the possible coverage duplication of a client and the upheaval and confusion that this causes. The worse is when the merger of two cultures is incompatible, which can lead to a whole host of problems such as compliance and control issues. Ultimately, it comes down to viability. After all, asks Salem, who wants to invest in a business where the bulk of the revenue is used to cover costs and fix problems? ■

2017 priorities: tilting the balance

An important objective for Salem over the next 12 months is to accelerate the move towards more of an annuity business, an effort he began when he rejoined the bank over five years ago.

He says the aim is for the business to be less reliant on an overly volatile capital markets business and increasing the focus on fee-based annuity income. The work that he and his team have done has allowed them to see a significant shift, where around 50% of its investment revenues in Asia Pacific have now come from managed investments.

Salem also sees a trend that will help support his goal and that is the shift underway in Asia towards the second and third generations of UHNW individuals. "They are more willing to allocate their money to us to manage for them and have a great interest in investing in more long term and managed strategies," he says, "such as private equity, real estate and other alternatives."

Why private bankers must act now or become obsolete

Relationship managers (RMs) who are not practising the right way of private banking, or who cannot remain relevant to their clients, have a limited life expectancy in this business, says Bahren Shaari of Bank of Singapore.

The new world of transparency has significant consequences for the way that private bankers must think about the role they play and how they can add value to their clients.

"If offshore private bankers don't remain relevant to local clients and their onshore needs, they will become obsolete."

This means a lot more than simply continuing to try to manage an ever-larger amount of assets with the support of new technologies, to compensate for the compression in margins.

Above all, staying relevant to the needs of wealthy individuals and families in their home markets is key, says Bahren Shaari, chief executive officer of Bank of Singapore.

And this requires understanding more about the real needs of these clients.

Advising on their wealth planning and structuring requirements is a clear example of this.

For so-called offshore players, Shaari says they need to reinforce the need for an advisory mind-set in terms of succession planning and global connectivity.

This is key, he adds, given the expected convergence between an offshore and onshore banker in terms of knowledge, as the numbers of RMs being developed in local markets like China start to grow.

This is an extension of emerging demand in the various local markets across Asia – stemming from changes in the needs of clients as well as in regulations impacting how individuals and families need to structure their assets.

In response, RMs at local institutions are being groomed to manage the vast amount of wealth held domestically – much of which is also likely to remain onshore.

But as a result, if offshore private bankers don't remain relevant to local clients and their onshore needs, then Shaari believes they will become obsolete.

"Otherwise, their role is not sustainable and the onshore private banker will take over," he explains.

JUDGED ON VALUE

An important factor in the changing role of banks – and bankers – going forward will be the shifting regulatory environment and mind-set of clients, in relation to fees.

WILLING FROM WITHIN

For bankers to be able to prove their worth, and certainly enough to charge for it, they need to continue hone their skills and increase their knowledge in the right areas.

This is something Shaari and his management team continue to urge their own 400-or so RMs to focus on. "We have to remind them that this [fees and competition from local institutions] is what the reality will soon be," he explains.

> **"The [wealth management] industry will only move in the direction of charging fees for advice if they are forced to via regulation."**

Shaari believes the industry will only move in the direction of charging fees for advice if they are forced to via regulation.

But at that point, when there is full transparency for clients over what fees they get charged, then he is adamant that bankers will have to reinvent themselves.

"They will be exposed for the true value they provide, or not," he explains.

"They will be judged by clients on whether they manage their risks well, whether they add value to clients in helping them organise their business and personal assets, and whether they give them peace of mind."

Those clients who can see the benefits will be willing to pay a fee, he adds.

"They therefore need to understand what their options are if they want to continue to be successful."

At Bank of Singapore, Shaari strives to ensure there is the required support for his RMs in terms of the product platform, the technology and tools available, the training provided, and the right client segments being targeted to suit the capabilities of the bank overall.

"However," he adds, "if the bankers don't participate and take advantage of the infrastructure available, then I cannot force them."

Changing the approach of an RM is an educational and sharing process, he explains.

This is partly down to having the right mentors and other senior people internally leading by example.

Plus, it relies on the regulatory environment, such as the strict suitability regime in Hong Kong, to force the industry to adopt a different mind-set.

Ultimately, Shaari says it is a question of bankers being able to adapt to survive. "Nobody can any longer be a product-led RM."

> **"If the bankers don't participate and take advantage of the infrastructure available, then I cannot force them."**

Even simply following the rules is not going to be enough.

Just 'ticking the boxes', for example, doesn't suggest the RM has any understanding about whether a client should be investing in a particular product or not. ■

Are Asia's independent models up to the task?

An exclusive Hubbis survey of independent wealth managers in Singapore and Hong Kong puts a question-mark over whether this increasingly influential community has the required advisory models and processes to deliver on the promise to clients of zero conflict of interest and consistent performance.

The gradual but steady shift in client assets towards independent (external) asset managers (IAMs) and multi-family offices (MFOs) has seen a clear expansion in the industry in Singapore and Hong Kong. More firms are being set up, and many existing players are slowly growing.

Business leaders in this segment expect the pace of development to continue – possibly quicken. Already in Singapore, for example, IAMs and MFOs on average – at least those which are members of the Association of Independent Asset Managers (AIAM) – are believed to represent 7% of AUM of the private banks.

And some practitioners hope the needle will move so that around 10% (or more) of AUM in Asia managed by 'real' independents in the next three to five years – especially if there is more alignment with the banks as partners, rather than competitors.

However, as the influence of this segment of the industry increases, it is vital to explore the models and processes that firms within this segment of the industry are implementing.

This is especially timely given that the growth in numbers of IAMs and MFOs across Asia has led to multiple business models emerging.

Some firms stick to a rigid approach of not accepting retrocessions, for example; they only charge clients by way of a flat fee, either based on an hourly rate or perhaps a percentage of AUM. This means they have no preference towards the assets the client buys.

According to practitioners who have this mind-set and follow this approach, robust and structured investment processes and platforms are critical to the right type of 'independent' advice that defines their value proposition. They are also required to be able to create the kind of superior, consistent performance which counts in growing the client base, including share of wallet from existing clients.

Key survey findings

- *Differentiation – by product or advice? (page 2)*
- *The top 7 ways for IAMs / MFOs to grow their client base (page 2)*
- *Attracting clients (page 3)*
- *Genuine independence (page 3)*
- *Justifying the fee (page 3)*
- *Refining value propositions (page 4)*
- *Insights into investment processes (page 4)*
- *Constructing portfolios (page 4)*
- *Size still matters (page 5)*
- *Priorities for enhancing the product platform (page 5)*

But while this approach is becoming a more meaningful part of the industry, there are still a relatively large number of independents who are still akin to transaction-based advisers. This is based on them getting paid via retrocessions and other commission-like incentives.

They might typically lack a defined investment process, and instead simply invest or allocate based on opportunities in the markets.

Some firms even say they have seen 100% growth, and higher.

The majority of IAMs and MFOs which responded to the survey believe that the winning formula stems from a better and deeper client relationship which, in turn, leads to more suitable advice.

According to several practitioners, for instance, the ability to advise clients across their entire wealth without a

"Robust and structured investment processes are critical to the right type of 'independent' advice."

conflict of interest, and to provide services such as consolidated reporting, is a clear differentiator. Many clients would never disclose all their assets to one bank. Products have never been a differentiator.

The top 7 ways for IAMs / MFOs to grow their client base

- *Getting referrals from existing clients*
- *Paying close attention to service quality and ensuring a better client experience than the private banks provide*
- *Delivering superior and consistent performance*
- *Taking a more holistic client-centric approach that focuses on objectives and not the tools to reach those objectives*
- *Introducing clients to third parties which can offer the right solutions*
- *Consolidating assets into a more effective way to view their portfolio*
- *Hiring senior RMs from the banks – and who have a solid book of business*

Even if IAMs and MFOs are run by experienced private bankers and staffed by relatively competent and entrepreneurially-minded client advisers, this doesn't mean they have the skills, knowledge or resources to build the kind of offering which can deliver real value.

As a result, the extent to which IAMs and MFOs are able to deliver on their client promises needs to be explored further.

These were among the key take-aways from a survey of the leading IAMs and MFOs in Singapore and Hong Kong.

DIFFERENTIATION – BY PRODUCT OR ADVICE?

Based on the survey of many of the IAMs and MFOs operating in Singapore and Hong Kong, 94% of those which responded claim their client assets have grown by at least double-digits over the past 12 months.

This is based on the fact that all firms play with the same toolbox – all asset classes and most products are available to all firms. Further, how valid is any firm's claim to be able to consistently use the toolbox better than anyone else?

As a result, product differentiation is a concept which is inherently flawed.

IAMs and MFOs can, however, differentiate the client experience by enabling clients to understand their own goals-based investment policy.

This simplifies the investment decision-making process, liberating them from the tedious approach of 'shopping around'; it puts the onus instead on the investment managers to deliver.

Independent practitioners say that the experience for clients of finally understanding 'why' they invest liberates the client from the more difficult problem of 'how' to invest, and the mysteries surrounding products and markets.

Yet by adding a unique investment offering or strategy to the mix creates the ideal combination, say practitioners.

Some IAMs and MFOs are also at the moment looking to develop more of a private market capability. They believe that this asset class is increasing in importance and attractiveness to clients

Genuine independence

Convincing a client that the advice is independent and aligned to their interests is critical to the sustainability of the model overall.

For those IAMs and MFOs which charge a flat fee, the fact that they do not accept retrocessions means that there is no incentive to sell anything.

Their recommendations to clients, they explains, are never 'poisoned' by revenue considerations. Instead, they look to create a relationship of trust by voluntary disclosure of hidden fees and/or returning voluntarily-hidden retrocessions.

This goes even further with those clients who are well-aware of the conflict of interest that exists within their private banks.

As a result, IAMs and MFOs should be 100% transparent. This also includes telling clients which banks the various product and investment ideas have come from.

For some firms, doing nothing but managing client assets is the answer to proving true independence.

However, since nearly half of all IAMs and MFOs who responded to the survey said they get paid retrocessions, the industry still has a lot of work to do.

in terms of returns. Further, one of the survey respondents said that clients are lured by the types of M&A deals which the firm can find for them.

A relatively surprising outcome of the survey, meanwhile, was that very few IAMs and MFOs say they introduce their clients to insurance brokers.

In what is a clear need where a knowledgeable adviser can add a lot of value via needs-based conversations with clients, this should be a more important part of the business for an independent firm.

ATTRACTING CLIENTS

More broadly, industry leaders within the independent space believe that there are certain key components of showing clients why they need to consider an IAM or MFO in addition to – or perhaps to replace – a mainstream private bank.

For instance, as smaller, niche players, IAMs and MFOs cannot hide behind a brand name. Instead, their success depends on having a clear strategic focus which is supported by their value proposition. In short, this means not trying to be everything to everyone.

To implement this in a consistent way, independents must have the appropriate infrastructure and systems.

The firm is then in a potion to explain to a client or prospect the concept of the 'best of both worlds' – a custodian of choice coupled with truly independent advice. Only once this happens can clients fully recognise the common conflict of interests they might face with their banks.

At this point, they can focus on offering a tailored product which outperforms.

Going down the investment comparison route is often a recipe for success, according to some independents.

Justifying the fee

Many IAMs and MFOs say that showing out-performance is the best way to convince a client that the advice they give is worth a fee.

This is the main proof of value, according to practitioners who responded to the survey.

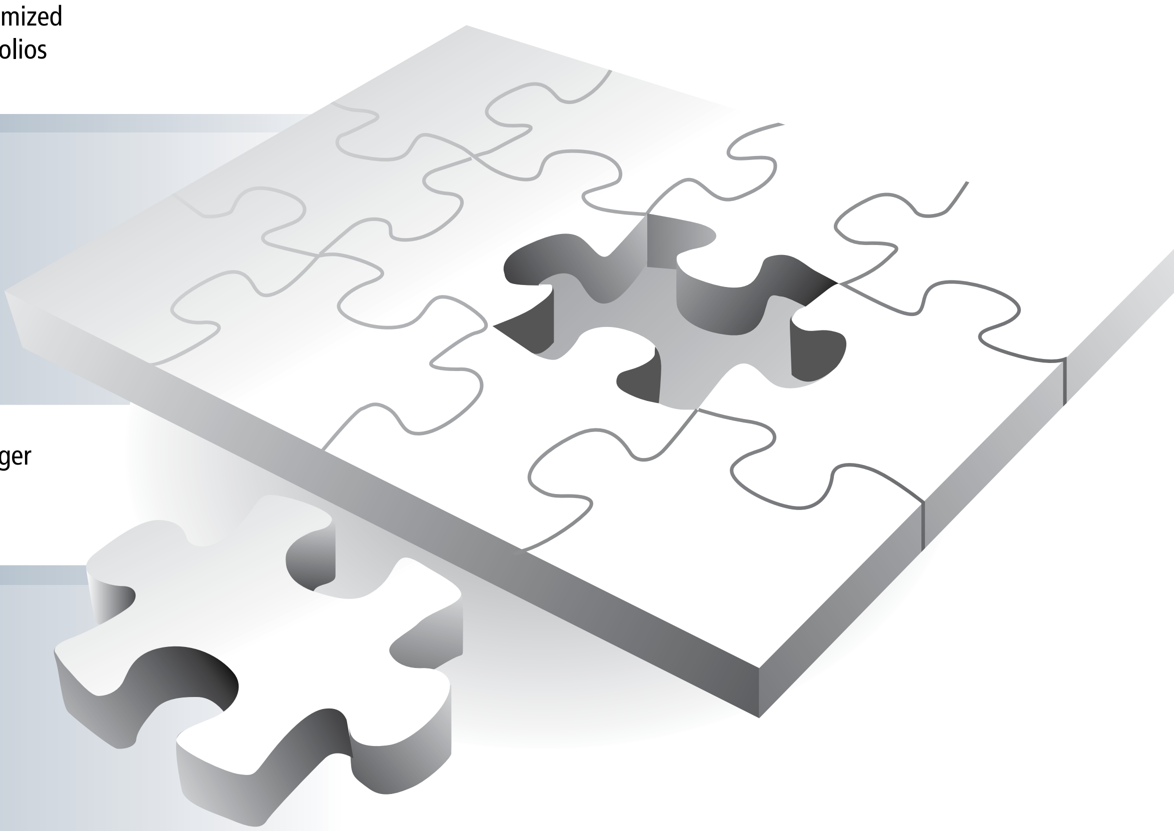
A key element to being able to showing net returns after fees, versus all other alternatives, is for the independent wealth manager to review existing portfolios and point out risks and product characteristics that may not have been properly explained by existing bankers.

Or, these might be investments that the client may have bought on their own initiative, but ones where they were not aware of risks or cheaper alternative products.

This is all rooted in showing the facts and figures, to highlight the costs savings and level of transparency as part of the proposition.

Ultimately, shrewd businesspeople and entrepreneurs understand that quality does not come free. If the service and outcome warrants, then charging a fee is not in question, according to make survey respondents.

This is not about convincing a client – but rather, showing them a potential investment that could be interesting to them and complement their portfolio. Another effective approach is to review the firm's own values and investment



Insights into investment processes

How some of the more forward-thinking IAMs and MFOs have structured their investment proposition:

- *"We have an investment committee, chaired by the CIO. We do a monthly review of our tactical asset allocation (TAA). We believe in buying for the long term and staying the course, so we don't busily reallocate assets and trade excessively"*
- *"We spend many hours with our clients on goal-setting. We seek to quantify their goals in terms of risk and return. We can then decompose the risk profile to three components, craft the investment policy statement and then optimise single portfolio. Then we rinse and repeat"*
- *"We follow a systematic, multi-stage process involving screening, analysis, validation and monitoring"*
- *"We adopt a traditional SAA and TAA approach, tailored to each client's risk appetite. We have relatively low TAA ranges as TAA often distracts from performance"*
- *"We aim for efficient and cost-effective implementation with ETFs, factor exposure etc. We try to avoid over-trading and falling for behavioural biases"*
- *"Our process is exclusively bespoke and bottom-up from the perspective of a client's objective(s), risk appetite, liquidity requirements and investment experience"*

style against the client's needs, source of funds and purpose of their wealth.

The independent adviser can then identify if there is a fit, and if so, which issues the client faces that can be managed.

The process then leads the adviser to try to fil any gaps via specific products or solutions.

Yet all these methods are rooted in the fact that an IAM or MFO must have a well-thought-out investment advisory proposition along with a robust and workable advisory model in order to back it up.

REFINING VALUE PROPOSITIONS

Meanwhile, in addition to the investment component to their offering, as the independent wealth management industry in Asia grows and new firms join this segment, it is becoming more essential for all players to refine their value propositions.

Individual IAMs and MFOs must identify which clients they want to target and what they want to offer them.

Some of the more established players believe that the best approach is to stick to what they do well.

Not being everything to everyone is a simple philosophy, but most likely an effective one.

At the same time, independents need to ensure they position themselves in a way that makes it clear about which services they provide.

For example, when it comes to investment advice, are they fund managers or asset allocators?

Constructing portfolios

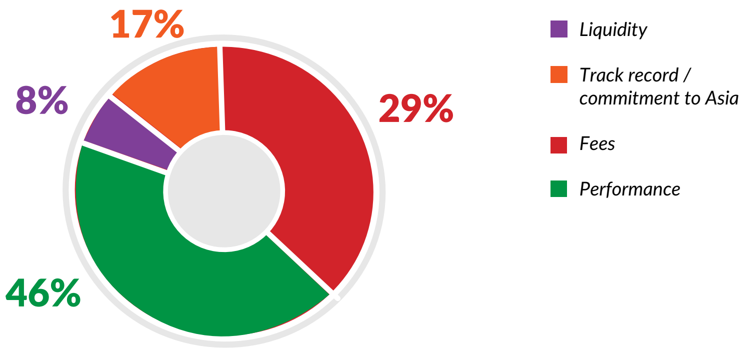
Performance (first) and fees (second) are by far the most important two factors when choosing a fund – at least for those IAMs and MFOs who responded to the survey.

Yet digging deeper, there are other tangible objectives they have when selecting from a product provider one fund or investment over another.

Some of the more common responses include:

- *"We look at historic, risk-adjusted returns, and also at the manager, reputation and management fee"*
- *"We want to either obtain better exposure at similar or better costs to a certain asset class, or we want to better align the product risk with the client's profile"*
- *"Within the same class or sector, we seek quantifiable markers of potential for sustainable alpha. If we cannot find any, we use ETFs. For other products, we will consider products that enable us to monetise tactical views or complement the strategic portfolio"*
- *"For any new potential investment, the question should be: is the risk compensated? If it reduces total risk whilst increasing total return, it's clearly compensated risk. If the enhanced return comes at greater risk, is the incremental risk too much?"*
- *"I look for 'uniqueness' in a deal and whether among, my client base, there could be synergy for these clients"*

WHAT ARE THE TOP FACTORS FOR IAMs AND MFOs WHEN CHOOSING A FUND OR OTHER INVESTMENT?



Source: Hubbis Survey

Priorities for enhancing the product platform

Some of the more pressing goals for many IAMs and MFOs in developing their investment and product capabilities on behalf of their clients include:

- *Creating joint ventures or alliances with relevant product partners*
- *Offering access to private markets and building co-investment capabilities for their clients*
- *Looking for higher-value, lower-cost opportunities*
- *Enabling technology that can enhance and highlight front-line competence / skill-set*
- *Ensuring ease of process, efficiency and choice*
- *Expanding the investment research team*
- *Providing a more qualitative reporting to clients*
- *Institutionalising the investment structure and clientele*

It is not uncommon, according to respondents, for many clients to see IAMs and MFOs more as fund managers.

However, some practitioners say that the role of the independent industry is to allocate the asset to the best in the investment space.

As a result, this gap in expectation and ability needs to be bridged.

Either way, client focus needs to be core to the value proposition of any IAM and MFO.

Some independent firms do this well already. In the last few months, for example, several firms have started to explore private equity and have set up their own funds.

This highlights the need to be able to offer bespoke solutions.

When a firm can do this, it is by its nature acting in the best interests of clients since by definition the client has 100% transparency over what they have bought, from whom, and how much it costs.

SIZE STILL MATTERS

There also remains a question-mark among many industry practitioners in terms of the size a firm must be to survive in today's environment.

Even some of the boutiques and independent wealth managers are themselves sceptical about the prospects for the smallest firms.

Running a viable business with two senior bankers and a few support staff is to longer really practical – for either the client or firm – given the operational and compliance requirements in today's environment.

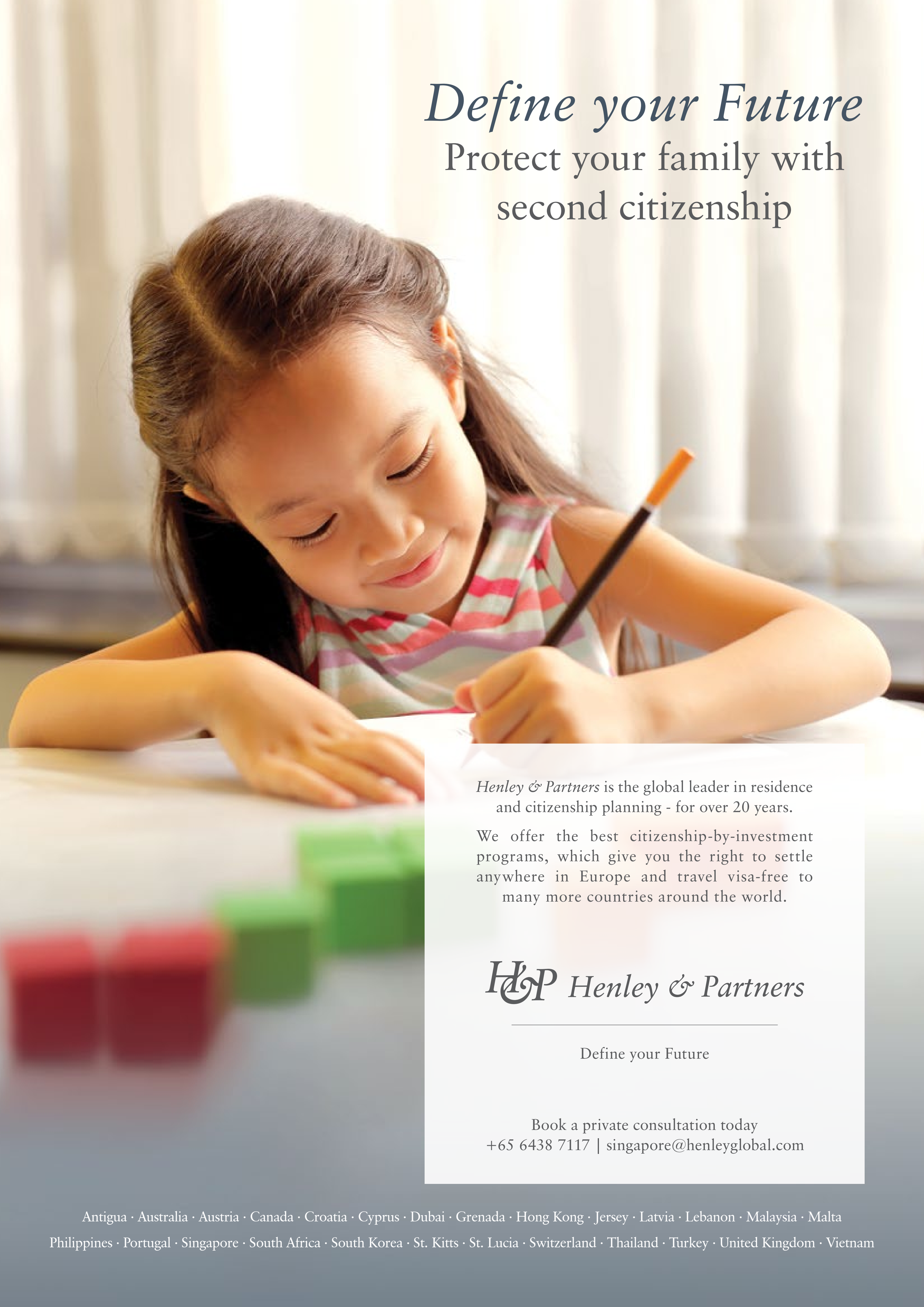
Yet consolidation is likely to be a good thing at some stage in this segment.

For example, done in the right, compliant way, the technology and processes needed today are expensive.

There are also requirements for an interface between banks and the independent firm as clients demand more than just a friendly face in the shape of their adviser; they also expect and need substance in analysing their assets and portfolios.

Those independents which have built some scale, along with a structured approach to their client engagement and product offering, are already reporting a pick-up in terms of clients who are looking beyond the brands of the private banks, say several practitioners from the boutique side of the fence.

Further, some of the boutiques say they are also seeing a greater influx of private bankers. ■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Driving collaboration and inclusion for independents in Singapore

Steve Knabl highlights some of the specific initiatives that the Association of Independent Asset Managers (Singapore) is pursuing, to further the reach and influence of this segment of the wealth management industry.

As president of the AIAM Singapore, Steve Knabl is focused on growing the reach and influence of the current community of independent asset management companies (IAMs) in the market today. He has calculated that around 6% to 7% of client assets within private banks in Singapore today are managed by IAMs. This shows the progress made in terms of penetration, given this figure was just 2% to 3% a few years ago.

EXTENDING THE REACH

Although there are around 35 IAMs which are ordinary members of the Association at the moment, Knabl says there are a lot more IAMs in the wider Singapore market – probably three times as many.

He says he is also seeing more and more peripheral service providers such as private banks listening to what IAMs need. "This is an important way for us to expand our influence within the market in Singapore."

One of the key steps which Knabl believes will help the independent segment to further develop in Singapore, is to continue its dialogue with the regulator. "They clearly already acknowledge us as we see them adapting certain laws to IAMs specifically," he explains. "This is on the back of the Association's discussions with the regulator already."

COLLABORATION AND INCLUSION

To further efforts to foster collaboration, education and inclusiveness in Singapore among the IAM community, the Association is now focused on being more present – both publicly and at all kinds of events.

"We want to talk to IAMs who are not yet members about the benefits of joining the Association, such as the commitments we have to defending and lobbying on behalf of the industry," says Knabl. At the same time, his objectives include more meaningful training events for members. This is to help them better understand and apply regulations and technology within their businesses, and to become more competitive. ■

STEVE KNABL
AIAM Singapore


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Writing a new chapter for wealth management in Thailand

Amid the broader push to bring product and service offerings in the country closer to global standards, Phatra Securities is enhancing what it brings onshore clients. This includes a pioneering deal to access the reach and diversity of Credit Suisse's platform.

As local and foreign banks alike vie for a greater share of the fast-growing and increasingly liberalised market for wealthy Thais, Phatra Securities can boast something which is rather unique.

The firm has inked a path-breaking agreement with the part of Credit Suisse's business which covers external asset managers (EAMs).

It essentially provides onshore clients with access to the suite of investment products available on the Swiss bank's platform.

This follows the desire more broadly among Thai investors – and the wealth managers servicing them – for greater product diversity and depth in their portfolios.

It is all in response to the long-term plan of the Bank of Thailand (BOT) and the country's Securities and Exchange Commission have been gradually easing some of the previously-tight regulations to allow investors in Thailand to directly invest offshore in certain asset classes.

And in line with this new regulatory mind-set, Phatra has wanted to develop more of a direct offshore investment option for clients of its wealth management unit.

The Credit Suisse tie-up is the Thai firm's answer to how it can leverage this for the benefit of its clients – and, more broadly, to be able to create a clear point of differentiation.

"We are now able to offer a more efficient and effective platform to help wealthy Thais to invest from onshore," says Kulnan Tsanthaiwo, who spearheads Phatra's wealth management business across all segments.

It is also a logical extension of the firm's mantra of providing an 'international standard with a Thai touch'

KULNAN TSANTHAIWO
Phatra Securities

CREATING UNIQUE CONNECTIVITY

The Phatra-Credit Suisse agreement took a year of discussions between both

NARIT KOSALATHIP
Phatra Securities

a wider range of products, to a desire to keep revenue already created offshore outside of the country.

"But there are still a lot of rich people with large chunks of money onshore who want and need to diversify into a wider range of products, geographies and asset classes," says Narit Kosalathip, who looks after the private client segment within the wealth management side of Phatra's business.

Being realistic, Tsanthaiwo knows that building an equivalent platform internally would take four to five years.

Today, as a result of the perseverance on both sides, an existing Phatra client in Thailand who successfully passes the Credit Suisse KYC test can now buy the majority of the products on its investment platform, booked in Singapore.

> **"It isn't about individual products, but rather how to use them as a solution."**

parties until the deal came to fruition. This was down to the fact that the Thai firm is an institutional client for Credit Suisse's EAM desk; whereas this team more commonly deals with individuals as part of the independent firms in Singapore or Hong Kong,

Part of the appeal to Phatra was to accelerate the firm's step along the path towards liberalisation by implementing a best-in-class investment arrangement.

Money from wealthy Thais has moved offshore over the years to meet various needs. These range from political and investment diversification, to access to

More specifically, this includes equities, bonds, mutual funds and even some hedge funds for certain types of clients.

GREATER CHOICE

Yet this is certainly not the end-game. Instead, it is the first step of a grander plan for Phatra in order to be able to create a try open-architecture platform for it clients.

In practice, the Phatra product team will take the investment view of the firm's CIO office to discuss with the product specialists within the Credit Suisse EAM business to determine what type of product or solution makes sense to help implement the view.

"It isn't about individual products, but rather how to use them for clients as a solution for their needs and goals," explains Tsanthaiwo. But this is more than just selling a Credit Suisse product to the client, she adds. "It involves discuss-

Servicing all segments

Phatra focuses on servicing clients across the various segments, according to their net worth.

Within the commercial bank, a priority banking service with around 60 relationship managers (RMs) looks after upper mass affluent clients with deposits of THB10 million (USD 285,000) or more with the bank.

In addition, Phatra Edge was launched three years ago, as an online investment porta to target white-collar individuals with a new account of at least THB2 million. It currently has around 20 RM.

They can also then can use the firm's open-architecture platform, and the bank can offer more specific financial planning needs to them. This is mostly to deliver these clients with mutual funds, plus they can be more self-directed.

The private wealth business, meanwhile, for clients with THB30 million or above, has around 60 RMs.

ing an idea with the client and then we will source the product to put it into the mix of what we offer clients."

Credit Suisse will therefore be one of the investment platforms that Phatra accesses, with the Thai firm emphasising that the client is dealing with Phatra. "We believe we can pursue this type of agreement on an open-architecture basis," adds Kosalathip.

Already, for example, the firm works closely with Phatra's own capital markets and investment platform via the securities business.

This is an important component, given the firm was the first local house to provide investment banking services – to help clients in strategic plans such as fund raising activities and M&A.

Further, it seeks to add to its services the credit and structured products through the cooperation with Kiatnakin Bank. And with cooperation from Bank of America Merrill Lynch, it is able to offer clients with global products.

CATERING TO NEW NEEDS

The evolution of Phatra's wealth management offering is also likely to soon come in terms of a move which Tsanthaiwo says the firm is contemplating into wealth solutions. This is in line with the aim diversify the business beyond simply advising clients on their investment strategy. Plus, it follow client interest in real estate, tax planning and other wealth planning services.

The shift in this direction is still under discussion, adds Tsanthaiwo, given that this is a relatively conservative organisation. "To help clients to transfer wealth across generations is a big move to make." But given the precedent set with Credit Suisse in terms of the willingness to collaborate with partners to achieve specific objectives, this is another option going forward.

What's already underway is a service advising clients on their real estate transactions. Portfolio for property investments, or PPF, as the firm refers to this financing, is also an extension of the step taken in late 2015 to introduce Lombard Loans. "We are the first and the only bank in Thailand to offer this collateralised loan for HNW clients," explains Kosalathip.

Given the sizable real estate and property investment portfolios its clients have, and the passion many of them share in these areas, Phatra realised the opportunity to take the Lombard Loan offering to another level.

"We have developed PPF as a solution for clients either to unlock liquidity from their current property holdings or to leverage in their future property investment," says Kosalathip.

In fact, PPF is just another variation of a Lombard Loan. What makes it a unique solution, he explains, is that the firm can count property as additional collateral to financial assets in a client portfolio. "We can only offer this solution because we leverage Kiatnakin Bank's capability in real estate lending," he adds. "We have pilot-launched this solution since the beginning of 2017 and we have been officially offering it to our client since early March."

CLEAR PRIORITIES

The current game plan for Phatra will make the next 12 months an exciting journey for the firm.

Initially, it is focused on make sure it gets the offshore relationship and connectivity right with Credit Suisse. It wants to then develop and evolve the Phatra Edge offering via some wider marketing to lure white collar workers in need of financial planning. "This is more than just way to get clients for our private wealth business, but to give them the planning advice they need," says Tsanthaiwo.

In line with these goals, she then wants to build on a recently-established investment solutions team – launched with the view of being able to diagnose what HNW clients need, and then propose solutions other than transactions. "We will use this approach to help further grow our AUM and fee income," adds Tsanthaiwo. "A lot of our clients could be doing more with the wealth they have, but we are not offering them the scope of solutions yet." ■

Building on solid foundations

The underlying philosophy across the wealth management offerings at Phatra is to deliver what the firm describes as a sincere quality of service. "We never have a KPI on the product level, as this is not in the clients' interest," explains Kosalathip.

The approach seems to have worked to date. The firm reports the equivalent of roughly USD11 billion in AUM, which Kosalathip says it purely made up of client assets held in investment products – it doesn't count money held on deposit.

This has increased due to steady growth in the private wealth business of around 20% annually in terms of AUM over the last few years.

Indosuez pursues clear strategic path

Across its global operations, the European wealth manager is aligned and focused in terms of the importance it is placing on growing the franchise in a steady but focused way, especially where Asia is concerned.

The disruption and transformation across the wealth management industry globally is making it easier than ever before to distinguish those firms with a clear vision and value proposition.

Amid this new environment, Indosuez Wealth Management believes it has what it takes – not just to survive, but to thrive.

It can be confident of this given some of the proactive steps it has taken over the past couple of years to address key issues that many firms are still grappling with.

Most notably, this is in terms of strategic positioning, strengthening its commercial offering, reinforcing the compliance and risk framework, and refining its geographic footprint.

Added to this is an ability to leverage what it says is a high-quality book of business, well-balanced between domestic and international clients, both in European and emerging countries, and it is understandable why its leadership globally and in Asia is optimistic.

"We are on a sound, long-term growth path and remain cost-effective and profitable," says Paul De Leusse, chief executive officer of Indosuez Wealth Management.

In short, he believes the firm is well-placed to target its desired entrepreneurial client base whose wealth management needs are increasingly global.

PAUL DE LEUSSE
Indosuez Wealth Management

RE-POSITIONING

The firm has recently emerged from a five-year strategic transformation.

This happened in two stages. First, from 2012 to 2015, internal analysis of the business model, value proposition, branding led to recommendations in terms of the architecture required and transformations needed to get there.

The upshot of such an audit was to restructure the services and products as part of a deliberate transition – from a private banking mind-set to a

PIERRE MASCLET
Indosuez Wealth Management

viser's skills. And advisory services and investment solutions were not the sole focus. Instead, and now as 'wealth managers', the firm wants to surround its front-line staff with experts.

This ties into the introduction of an international wealth structuring offering, based on integrating corporate services – including corporate finance, equity transactions and complex financing. This is all now bolstered by five globally-coordinated support functions at the bank: risk, compliance, legal, HR and communications.

BALANCING SCALE AND A NICHE STYLE

Getting the best of all worlds is how Indosuez Wealth Management sees

> **"We are on a sound, long-term growth path and remain cost-effective and profitable."**

broader wealth management offering geared more towards UHNW clients and entrepreneurs.

By early 2016, the launch of the new (current) brand signaled the culmination of this strategic transformation.

What came with this second stage were some key shifts in the business.

For example, no longer was a 'private banker' the client's sole point of contact where the one-man-band mentality prevailed. Further, financial expertise could no longer be dictated by the client's place of residence and the ad-

things. "This is an offering which is on a par with the biggest specialised players in the industry," says Pierre Masclet, who spearheads the firm's business in Asia.

On the one side there is still a certain amount of human scale.

"This guarantees close working relationships and mutual understanding internally and with each individual client," he adds.

At the same time, a re-vamped and well-balanced international network ensures access to the world's highest-growth regions for wealth management. In 2016, Indosuez decided to reinforce its international refocusing plan, which will ultimately reduce its AUM by roughly EUR10 billion as part of the institution's three-step strategy.

First, in light of Automatic Exchange of Information (AEOI), the firm opted to focus on countries that had either already signed or committed to sign the AEOI agreement.

Secondly, given its commercial strategy, it only wanted to work with HNW clients in target countries.

And thirdly, it extended its tax certification process to non-European residents.

Today, to maintain a rigid and robust risk management framework, compliance and control management are part of the Indosuez group's DNA.

"We have developed a strong and reliable set-up to maintain the highest industry standards in terms of risk and compliance management," says De Leusse. "We have turned this into a distinctive, competitive advantage."

For example, the firm has 22 dedicated members of staff at the central level to monitor the risk and compliance control set-up; and it has 188 governance documents dedicated to the monitoring of wealth management.

KEY GROWTH PILLARS

According to De Leusse and Masclet, there are four key growth pillars on which the firm is building its future.

Accelerated growth by stimulating expansion organically with astute segmentation, as well as improved organisation and marketing, is one of them.

To achieve this, synergies are being developed within the Crédit Agricole group to complement the wealth management offering.

More specifically, this means targeting existing clients within the group such as corporate and family holding clients, as well as wealthy individuals from within the retail network.

At the same time, adds Masclet, the firms is looking to continue to acquire talent and selective portfolios of business to assert Indosuez's positioning on existing domestic markets and with key international clients.

A second priority for the firm is a digital transformation.

"We want to strengthen our quality of services by digitalising our offering and client processes," explains De Leusse.

This is in three main areas, he adds: improving the client experience, by providing clients with permanent access from everywhere to the Indosuez expertise via their RM or the bank experts; improving the RM experience, by providing analytical decision-making tools, with a strong ambition on mobile technology; and simplifying the clients' administrative tasks related to their banking relationship.

"Ultimately, research of our clients has shown that they mainly want better and quicker access to their RMs," adds De Leusse.

In line with this also, the bank recently launched a mobile application, named Indosuez Insight. The app offers an easy and privileged access to its latest economic research and financial news, as well as areas related to wealth structuring.

The third pillar of the strategy is the simplification of the organisation in terms of improved efficiency.

This is best reflected by improvements in the cost-income ratio by refining and streamlining the organisation, in turn decreasing the marginal cost of operational processing.

"The ultimate goal of this plan is to maintain a cost-income ratio below 75% despite an ambitious development and digital investment programme," reveals De Leusse.

Uniting staff around a common project is the fourth growth pillar for the firm.

To do this, the aim is to cultivate an environment allowing each member of staff to achieve their full potential while contributing to the collective ambition.

"This is achieved through a culture and strategy which is inclusive," explains Masclet.

In reality, this means a mix of elememts.

For example, better communication of the corporate plan and goals, more regular updates about the results and strategy, an interactive forum with members of Indosuez group's management board, encouragement to managers to invest in developing their teams – while increasing the delegation, and clearer career development opportunities while celebrating collective achievements.

"Our internal and external communications strategy will play an important role in federating our team's ideas and energy around the 'Shaping Indosuez' project," says De Leusse. In line with this, the firm's intranet is a key platform for getting to know each other better, for example for efficient knowledge management about the goals, resources, priorities and achievements. ■

Client education

The bank is firmly committed to sharing knowledge with clients too.

For example, it organised in February in Hong Kong the 4th edition of the Indosuez Wealth & Beyond Asia Summit.

During this session, renowned and inspiring speakers explored the meaning of wealth in all its facets, with the aim of positioning Indosuez Wealth Management as an industry thought leader.

Subjects were as diverse as geopolitics and neuroprosthetics, macro-economics and microfinance, financial markets and new technologies – providing in-depth information on today's most exciting topics and the impact they may have on families and entrepreneurs.

Leveraging the group's synergies, the bank also welcomed during this event the Nobel Laureate Professor Yunus.

He shared with the audience his vision and commitment to eradicate poverty in the world by accelerating social business.

In the sweet-spot of Asian private banking

Henri Leimer is convinced that LGT Bank's patience and long-term vision has been central to its steady but consistent growth in its wealth management business Asia. Not many of his competitors can lay claim to a similar story.

In what are clearly turbulent times for many international private banks in Asia, Henri Leimer is glad to run a relatively low-key and conservative business at LGT Bank.

By contrast, most of his counterparts continue to grapple with a host of challenges that simply create big distractions. These range from trying – often unsuccessfully – to grab a greater share of wallet, to struggling to navigate a regulatory and compliance landscape.

While LGT is far from immune to these dynamics, the fact that its philosophy – and staff – has remained largely consistent, has enabled it to weather the storm.

It can focus, therefore on forging relationships between its bankers and clients where there is a genuine 'trusted adviser' status.

"We have always been a very client-centric organisation," says Leimer, chief executive officer, Asia Pacific, wealth management, who first joined the bank in Liechtenstein as a senior representative in 1994.

CONDUCIVE CULTURE

Proof of this approach being something tangible, and not just more industry rhetoric, he explains, is a flat and lean structure for a management team whose sole purpose is to support its bankers and clients alike.

This requires the bank to provide its relationship managers (RMs) with the environment and infrastructure to deliver what their clients need.

Rather than being top-down and short-term oriented in terms of asset and revenue targets, Leimer is quick to point to the focus on his people and the bank's clients. "We have never forced our bankers to sell a certain product to our clients, and we will not change that going forward," he stresses.

HENRI LEIMER
LGT Bank

This strategy also avoids making bad managers out of good bankers – something which is only practical in an organisation of a smaller size.

"Our senior bankers are more interested in servicing their clients than they are in managing teams and being burdened by too much administration," adds Leimer.

HARD TO FOLLOW

Despite the logic of LGT's step-by-step approach to growth, and to evolving relationships in a sustainable and profitable way, this isn't a path many institutions like it seem to follow.

For larger private banks, their scale often dictates the need for certain processes, systems and structures that don't lend themselves to the more flexible and entrepreneurial culture that Leimer and his management team try to foster.

genuinely holistic in nature and execution – rooted in an experienced wealth planning offering to add to the bread-and-butter mix of investments and portfolio management.

The wealth structuring teams in Hong Kong and Singapore essentially offer free advice to clients.

What is in it for LGT might be considered questionable, admits Leimer.

Sometimes this amounts to no additional revenue. But in most cases he is confident that this service adds significantly to the relationship. "We can increase clients' trust by talking with them about the bigger issues that a lot of families in Asia face," he explains.

> **"We have never forced our bankers to sell a certain product to our clients, and we will not change that going forward."**

Institutions at the other end of the spectrum, meanwhile, are possibly a bit too small in terms of assets and revenue to adopt the LGT model.

In Leimer's view, the bank's USD30 billion AUM (pre-ABN AMRO acquisition) is the sweet-spot. A key upshot of having a positive story to tell, he explains, also makes it a bit easier for the bank to attract talent it wants.

MONETISING CLIENTS' NEEDS

This has further enabled LGT to cultivate a value proposition it believes is

Not having a trust arm helps. This means the bank doesn't look to sell specific structures. Instead, LGT's wealth planning offering acts and behaves akin to family advisers which act in the best interests of the clients.

SETTING CLEAR PRIORITIES

Yet Leimer is very aware of the challenges which he (and the rest of the industry) face to keep the offering relevant and compliant.

A big part of this relates to the processes required in running a private banking business today, along with the lifecycle management of clients.

"We need to completely get away from using paper by incorporating IT to streamline processes and make the 'cockpit' for the banker much more user-friendly," he adds.

This is also fundamental to ensuring the right control mechanisms are in place, as well as conforming with internal and external rules and regulations.

Getting this mastered over the next 12 to 24 months will mark a big leap forward, and possibly ahead of the regulatory reform agenda.

TOWARDS A SUCCESSFUL INTEGRATION

This mind-set is also important to ensure a smooth integration following the recent acquisition of the private banking business of ABN AMRO in Asia and the Middle East.

At the time of the deal being announced in early December 2016, LGT said it expected to increase its AUM to more than USD40 billion in Asia and to approximately USD160 billion overall.

The bank also pledged that the employees who will transfer from ABN AMRO as part of the acquisition would be integrated into LGT's regional entities in Hong Kong, Singapore and Dubai, respectively, and that they would continue to look after their clients.

"We are fully committed to all bankers and other staff who join us," says Leimer.

"It is in our interest to keep the ABN AMRO business intact and potentially grow it, where possible." ■

Raising the independent wealth bar in Hong Kong

Partners from two of Hong Kong's leading independent asset management firms have joined forces in a bid to bring necessary scale and efficiency – plus more value-add – to a combined offering.

To be a successful independent asset manager (IAM) requires a certain level of scalability to survive in the new economic and regulatory reality of Asian wealth management.

It is against this backdrop that four partners from two of Hong Kong's leading IAMs have come together to create a new firm in this space – The Capital Company.

Lodewijk Lamaison, a founder and managing partner of Caidao Wealth, has joined forces with Jessica Cutrera, former managing partner of EXS Capital Asia and Todd Pallett, a former partner and managing director of the same firm. Harmen Overdijk will join at a later stage from Caidao to complete the partnership.

The starting point was a discussion that both firms had in early 2016 with a US private equity firm which specialises in this segment and buys minority stakes in such businesses. "They effectively said that we needed to scale up, and so should consider inorganic growth," explains Lamaison. After several conversations, he says it seemed a logical step for the two to join forces in a merger of equals. "One of the reasons is simply to create more scale in this industry, which is lacking among many IAMs in Hong Kong."

The new entity will be 100% owned by the four founders. The structure is more akin to a law firm partnership rather than a wealth management firm with a CEO, but still with strong reporting lines in line with the regulatory license.

While Lamaison is going to help spearhead the relationship front, Cutrera will lead the compliance and operations parts of the business; Pallett will also oversee the client relationship management piece. However, going forward, they are open to the idea of adding new shareholders or partners, or even a strategic investor.

CUTRERA & LAMAISON
The Capital Company

The outcome, essentially, is a doubling of the senior team, a couple more operational staff, and a near-doubling of AUM at launch. "The synergy of the two firms, and the size and scale that we can build, are what's most exciting for me," adds Cutrera.

BEST OF BOTH WORLDS

The business philosophy of the partners is aligned insofar as they all work on a management fee basis.

In other areas, the firms are complementary. The Caidao business, for example, has traditionally focused on larger clients via discretionary portfolios, where Cutrera has more experience in dealing with clients below the 'Professional Investor' threshold. Plus, she brings a very strong focus on the operational and compliance side.

The firm's new license will allow it to deal with clients that are relatively a bit smaller in terms of AUM, which is deliberate given that this segment is generally under-served in Hong Kong.

More broadly, the importance of the value proposition of an IAM is getting increasingly pronounced in an environment where private banks are more and more restricted in what they can offer their clients, or even talk to them about.

"Our independence still secures the fact that we can deal with different service providers, which enables us to find solutions that banks are not willing to deliver anymore," explains Lamaison.

Being able to increase efficiency will also lead to a significant improvement in the offering to clients, adds Cutrera.

From her perspective, in particular, splitting the wealth management business of EXS Capital from the firm's private equity advisory offering removes any confusion about the business model.

"We will now have a pure wealth management platform that focuses on transparency of fees and costs, alignment of interest, and outcome-based investing," she explains.

"This is really about an alignment of interest for our clients, driven by a shared investment philosophy to pursue this opportunity."

ADDING MORE VALUE

There are two drivers behind the desire for scale. First, it makes doing business more efficient, and therefore more profitable. Secondly, since small firms are subject to the same compliance and regulatory pressures as larger organisations, they need to find ways to minimise the costs of these. "Being a bigger firm with more revenue will enable us to better deal with those challenges," explains Lamaison.

Yet the cost-saving element is only an added bonus. If this were the sole focus for the partners, they could have found other, existing platforms to join. "This is really about an alignment of interests for our clients, driven by a shared investment philosophy to pursue this opportunity," explains Cutrera.

On top of this, hers and Pallett's backgrounds lend themselves to bringing to the combined set of clients a strategic estate planning focus, to help deliver a more rounded service. The new firm's license also enables it to offer insurance solutions as part of this – ranging from term life to income protection, to high-end healthcare to investment-linked.

THE RIGHT THING FOR CLIENTS

The needs-based approach of the new firm is among the characteristics which will enable it to stand out. "What we do is not necessarily about performance," confirms Lamaison. "In most cases, our clients want us to help them protect their capital more than anything else." Even when the conversation turns to investments, the idea is to generate absolute returns if it fits a client's needs.

This marries with the fact that the partners are not afraid of giving advice. "As a team, we specialise in multi-jurisdiction, cross-border planning. And more people are moving away from that business not towards it," adds Cutrera.

Advising US citizens is an example of this. "Most wealth managers don't want to talk to US citizens, or even hold their assets. But our combined resources, and the fact that more of our time is going to be freed up to do actual client work, is really powerful," she explains.

Growth via a few more bankers joining the platform at some point is something the partners welcome – but only if these individuals fit the culture of DPM, fee-based advisory and total transparency. ■

How Cazenove caters to a niche for discretion

Simon Lints explains Cazenove's focus on doing the basics of wealth management well, plus leveraging the brand and reputation of Schroders to deliver a focused but high-end offering out of Singapore – led by sound client service and advice.

In an environment of excessive regulation and volatility, both in terms of the business and investment markets, simple products and clear advice is a much sought-after commodity.

This goes to the heart of the philosophy of Cazenove Capital Management. As the wealth management arm of parent company Schroders, profitability and sustainable operations are big priorities. This also caters to the direction which the more sophisticated HNW and UHNW clients in Asia are starting to move in.

The upshot of this is a strategy for Cazenove which focuses on the areas in which it knows it can deliver – especially discretionary portfolio management (DPM) as a core offering.

This approach has been reinforced since Simon Lints came on board as chief executive officer in Singapore in mid-2016. "I took a long, hard look at the business, to see where the strengths were. Essentially what we have been doing has worked extremely well so far."

Rather than going down a misguided path of trying to be everything to everyone, he is adamant about steering clear of building a big lending book or being overly-focused on trading. This plays to the relatively niche size and scale of the local operations.

"We appreciate that a lot of clients are going to be banking predominantly with the big Swiss players, or doing most of their trading with other platforms. But we play a real role in satisfying clients' multi-banking requirements," he explains. Further, on the discretionary side, the firm is also not greedy, but rather realistic about the share of wallet it is likely to get.

SIMON LINTS
Cazenove

CLEAR OBJECTIVES

In general, Lints is focusing his business on three fronts. One of these is about doing more in the existing markets where Cazenove has been operating successfully to date – namely, Indonesia, the Philippines, Malaysia and Hong Kong.

In practise, this simply means asking for more business and referrals from those clients who are happy with what they have been getting.

The second element of the firm's strategy is to up the ante in its home market of Singapore. This has involved strengthening the profile of the office, teams and overall offering.

An event in October 2016, for example, saw around 120 clients, prospects and intermediaries come together for this purpose. Through this and other specific hosted events he has seen an uptick in the number of people now coming and speaking to him and his colleagues. The third objective for Lints is working increasingly with family offices from Europe. And he sees this as a client group with more and more potential.

"The elections this year will add to the uncertainty in Europe," he explains. "We are finding that family offices in Europe are very keen to deal with brand names as solid as Cazenove and Schroders, and they are opening up accounts with us here in Asia with meaningful AUM as they look for geographic diversification, as well as local presence and expertise."

PLAYING THE LONG GAME

These priorities are aligned with the long-term vision that Schroders has for the business.

This is tied to the increasing acceptance of discretionary as opposed to advisory as a much bigger part of the future for wealth management in Asia. (The firm also offers advisory services, charity fund management, and banking and treasury services.)

Lints started to see this even more clearly after starting to engage with his colleagues around the world following his arrival.

His interactions with colleagues in the London, Zurich, Geneva, Frankfurt and Channel Islands offices, among others, have indicated this to be the case.

At the same time, Lints has made it part of his remit to get closer to Schroders, working on various joint initiatives and sourcing introductions via the fund house's well-entrenched connectivity, especially in some local markets such as Indonesia, where Schroders is a market leader.

"We are also working with Schroders in Asia to look after some smaller institutional money which might fall below the firm's threshold," he adds.

The opportunities which he sees for Cazenove out of Singapore also stem from a structural trend he has witnessed in private banking over the last decade or so, during which time he has worked with both Credit Suisse and, previously, UBS. "I see the big banks increasing their minimum thresholds, which can have the effect of depersonalising relationships [with smaller existing accounts]," he explains. "A lot of this is being driven by the focus on bottom-line profitability."

By contrast, Cazenove looks to have a smaller number of clients but being more hands on with each one. "My relationship managers are all very experienced, and they work extremely closely with the investment team, including doing a lot of joint meetings and calls."

Already, Lints says he has seen that marrying a hands-on, professional service from a boutique bank in Cazenove, but under the umbrella of the Schroders name and fire-power in Asia, is starting to pay dividends. "The numbers are certainly coming through strongly."

"We play a real role in satisfying clients' multi-banking requirements."

AN EYE FOR GROWTH

This should all lead to a boost to the current SGD2 billion in AUM in the Singapore business – Lints' biggest priority for 2017. With this will come the desired increase in revenue.

He says the firm is also in the early stages of looking at some potential acquisitions to drive growth.

"We have an appetite for this because I believe we have a very good platform, and it's relatively straightforward to add an operation that can bring in some AUM."

He also reveals that Cazenove is considering potential joint initiatives in some of the territories where it already deals with local players; this includes Indonesia, the Philippines and Singapore. ■

Not getting caught in the herd mentality

As significant chunks of Asia's wealth management industry continue to struggle to articulate a clear value proposition, the right mind-set (independent or not) is essential to meet the needs of clients today, says Philippe Legrand of London and Capital Asia.

Managing the quickly-changing needs of wealthy clients is significantly more challenging today than ever before. A decade or more ago, these individuals didn't have the same amount of access to information as their wealth manager had. Today, virtually anything they want is at their fingertips.

Not only has this made clients more demanding, but it has, in turn, disincentivised them from being willing to pay more for the service of analysing such increasing data, explains Philippe Legrand, chief executive officer of London and Capital Asia, a Hong Kong-based multi-family office.

Further, the regulatory requirements which institutions and clients both face, and its associated cost, make it inevitable that advisers get asked to do more for a lower fee than before.

"Firms which cannot evolve and offer something new and of added value will find it more difficult to survive going forward," says Legrand. "Yet this is the time when clients most need advice."

As a result, being more nimble, client-centric and focused on solutions are critical success factors. And this plays to the strengths of independent wealth managers.

FINDING THE RIGHT APPROACH

Traditional players such as banks face a significant challenge in being able to evolve their offerings in such a client-centric way.

It is clear, based on clients' needs, that success today is more about service than everything else. Yet the complexities of meeting compliance obligations and keeping on track with their businesses mean that client advisers and other wealth managers face challenges in finding the time to focus and commit to finding solutions for their clients, says Legrand.

PHILIPPE LEGRAND
London and Capital Asia

"The banking industry's priority seems to be focused mostly on avoiding a further round of billion-dollar regulatory fines; and I can understand their

worries," he adds. Yet the blame for the approach that many firms and advisers take in terms of a product-push should largely lie at the door of employers.

"To address shareholders' continuous return expectations, the whole industry is based on quickly bringing in new people who can make money for the institution," says Legrand. "This makes it less about quality than survival, and it is not necessarily the fault of the RM."

ADDING VALUE

By contrast, an independent model (or simply a different, 'non-bank', solution) can also help to overcome the challenge for Asian wealth management in general – notably, the limited supply of individuals with the experience and capability to properly service the amount of wealth being created.

Experienced advisers generally have a greater knowledge and willingness to explore ideas and approaches with clients which might not obviously be an immediate generator of income.

And independence does provide more freedom when allocating the use of their time.

"We can choose to adapt more quickly than a larger institution," adds Legrand.

This goes way beyond investing, given the international nature and assets of Asian clients today, which brings with it various complexities which advisers need to better understand and help clients address.

To achieve this, it is also important for advisers to be able to get clients to understand the value of the advice they need – beyond their investment portfolios.

At the same time, being independent doesn't necessarily have to equate with being a small organisation, says Legrand.

"It is about having people with the ability to have a broad range of conversations with clients," he explains.

While technology and digital tools also play an important role in facilitating this, at the end of the day, there is still a need for individuals who can interact with clients and have needs-based conversations.

Indeed, from Legrand's perspective, the more recent surge in the concept of family offices and multi-family offices in Asia is a direct consequence of a growing number of families looking for service beyond brand.

This enables these clients to build their own access point to high-quality and unbiased advice to service their overall needs.

"Private banks traditionally focus mostly on liquid assets that they can manage within their own bank, while clients' needs have evolved beyond a traditional asset management offering – be it in also getting a consolidated overview of the various banks for better risk management, accessing direct investment opportunities while nurturing the next-generation's entrepreneurial spirit, advice on succession planning and family governance issues," says Legrand.

"This is the service gap we see and the added value we aim to give as a multi-family office."

SIZE DOESN'T MATTER

The industry cannot ignore the challenges that clients face in getting the advice they need, plus it must be able to respond to these requirements in a way that also is in line with the various regulatory frameworks.

This takes a certain amount of time and investment by organisations to get their infrastructure and offering right.

As a result, much of the talk about being successful in Asian wealth management today is focused on creating scale.

In a world where the environment requires processes and systems to be sustainable, Legrand says scale is critical.

However, this is easier said than done. "It is very difficult to scale a time-consuming relationship," he adds.

Yet despite all the talk about the need for scale, especially for independent wealth managers, lack of growth doesn't indicate lack of success.

Some firms might not want to grow using the same benchmarks as banks, says Legrand. Instead, he believes one important measure of success for independent firms is whether they are still in business a decade later.

"Without a large brand on your business card, it is more about an individual's own ability and own network."

It is also not necessarily about continuously bringing in new clients, but rather doing more with existing clients.

"You must take the time to listen and understand their changing needs and issues," he says. "And then have the knowledge and experience to deal with them with a flexible 'can do attitude'." ■

New IFA landscape in new Singapore regime

As the expat population in Singapore thins, as more professionals leave the city-state, the opportunities for those financial advisory (FA) firms still focused on this space are getting bigger, says Matthew Dabbs, chief executive officer of AAM Advisory.

The fact that the Singapore expat market is under-served from a wealth management perspective certainly gives says Matthew Dabbs, chief executive officer of AAM Advisory, reason for optimism.

According to the Ministry of Manpower, there were 187,900 employment pass holders and 527,700 permanent residents in 2015, with a mere 120 or so expat-focused financial planners to service them. Using these figures, that translates to roughly 1,600 expats, and 4,300 locals, per adviser.

"In Singapore, finding new clients is not as easy [as it used to be]. We will do more events, especially in-house with partners."

MATTHEW DABBS
AAM Advisory

"We estimate there are about 384,000 [potential clients], based on Linked-in figures, who we would like to deal with in Singapore, which is around 3,000 per adviser," he explains. "I would say it's still under-broked and that the opportunity is bigger than ever."

Yet finding new client is not easy. Traditional prospecting methods such as cold calls are no longer tolerated given the 'Do not call' list concept. FAs, therefore, have to devise new ways of attracting attention. "In Singapore, finding new clients is not as easy [as it used to be]," says Dabbs. "We will do more events, especially in-house with partners."

As a result, AAM seems to be less affected than some of the other FA firms. Several of its more recent events have led to favourable outcomes.

Further, as some other firms have exited the market, AAM has picked up a number of new advisers to add to its books "Growth over the last 12 months has been quite substantial," adds Dabbs.

LESS COMPETITIVE

At the same time, the Financial Advisory Industry Review (FAIR) legislation, which makes it more challenging for smaller FAs to sustain operations in the same way as in the past without a lot of additional checks and balances – and cost – has led to an increasing consolidation of talent among larger firms such as AAM.

There are also opportunities for licensed FAs in partnering with private banks, says Dabbs. Although these institutions have large numbers of clients who they want to continue to service via various financial advisory services, not all of them possess the FA license issued by the Monetary Authority of Singapore.

FRESH TALENT

According to Dabbs, the FA space in Singapore is also undergoing a revolution of sorts in the sense that it is attracting young talent.

In line with this, AAM has pioneered an innovative initiative – launching an academy to train and produce industry-ready advisers. Although the firm already has 44 financial planners, it recognised earlier than some of its rivals that there would be a need to deviate from standard recruitment practices if it wanted to grow and reach its target market share.

The AAM Financial Planner Academy was therefore born. It attracts graduate interest from overseas as well as locally (given some great local government-funded initiatives) for a two-and-a-half year programme. The firm supports these trainees through their regulatory exams, provides product and advice guidance, and mentors them as they become associate financial planners.

Dabbs says there is a lot of demand for the places in the scheme, as he sees graduates placing value in such structured, guided training programmes.

For their first 18 months, the graduates work in AAM's sales development department.

They assist senior financial planners by focusing on business development activities, utilising sponsorship opportunities, marketing events, networking and e-marketing. In this time, they also take their FA exams and spend time with different areas of the business.

"A happy, and unexpected, product of the Academy is that the project became profitable within the first year."

At the end of this period, the graduates are Singapore-qualified financial planners. They then proceed to a client-facing role of associate financial planners, and for the next 12 months, a senior financial planner will accompany them on client meetings to ensure the integrity of the advice is maintained.

"A happy, and unexpected, product of the Academy is that the project became profitable within the first year and their activities helped generate 25% of the company's new business," says Dabbs.

ROBUST

When looking a bit more broadly at the wealth management space in the region, Dabbs feels that Singapore's foundation in the finance, shipping and oil industries will ensure it remain a key financial hub in Asia.

More specifically in terms of his own firm's growth strategy, he explains that the advisory model will be based on figuring out the needs of its clients and suggesting bespoke portfolio strategies.

AAM has also identified three priorities going forward: to grow AUM, increase profitability, and improve its processes.

"Streamlining the process to make sure that our advisers are spending the maximum amount of time that they should be with clients is definitely a major priority," he adds. "Everyone has to look after each client to the same level and the same degree, but at the same time make sure that the clients understand this is a fair offering which they need to pay for." ■

Staying relevant in a new insurance landscape

Navigating the new era for life insurance in Hong Kong demands a clearer approach to segmenting customers. Only then can the industry identify the solutions and style of advice suitable, says Ben Worthington of Zurich Life Insurance.

The future of financial planning in Hong Kong, amid a new era of regulation for insurance companies and advisers, will be based on clear segmentation.

This is according to Ben Worthington, head of the life business for Zurich Life Insurance Hong Kong, who says this will then influence the way advice gets given, as well as how it is remunerated.

This highlights the fundamental shift that he believes is required in a market which needs to foster the right kind of longer-term behaviour among distributors and product providers alike.

Indeed, the goal of two guidance notes – GN15, impacting indemnity commission on Class C investment-linked assurance schemes, and GN16, extending restrictions to traditional Class A life products – has been all about regulating the advice process and treating customers fairly. For insurance companies such as Zurich, the far-reaching reforms are leading to changes in terms of how it conducts its interactions with customers and distribution of insurance products going forward.

For everyone, in fact, staying in business in Hong Kong now relies on building a sustainable business which focuses on the client value proposition – not maintaining a sales-oriented, transactional culture.

TIERING CUSTOMER NEEDS

In practise, more time and energy needs to be spent firstly identifying and then designing products the different needs, income brackets and affordability levels of each type of customer.

This then makes it possible to know when an individual is ready for a certain type of pure protection, protection with savings, pure savings, or pure investment, explains Worthington, who has been with Zurich in Hong Kong since 2006. In turn, this will determine the level of involvement required by a financial planner, broker, agent or other practitioner. For example, where customers' needs are relatively simple,

BEN WORTHINGTON
Zurich Life Insurance

there is little advice needed. This might apply in cases that Worthington refers to as "basic necessity insurance". This could be simple life cover that someone might buy when they get married or have a child, to protect against loss of life or income to that family unit. It could be simply decreasing term cover to protect against a repayment mortgage, or to protect against loss of future income. Critical illness protection can be another simple form of protection, and one which is often overlooked.

"A person is actually three times more likely to claim on their critical illness cover compared with life cover."

Then there is the basic necessity of savings. This might apply, for example, to a lower-income household where there is still a need to save for the long-term future, and who are at the greater risk by not having any long term savings, but where a vast range of unit trusts or mutual funds might offer too much investment risk and relatively higher fees, whereas a simple pure savings vehicle with guaranteed returns could be a better fit for the risk and return profile of the customer.

Again, advice isn't always required, as this involves a simple monthly savings discipline. When it comes to unit-linked products, however, practices have evolved in the wake of various regulatory crackdowns.

The majority of customer complaints in the past have been due to a lack of understanding of how the products work, explains Worthington, with customers focusing on short-term gains from 'bonus' allocations rather than the longer-term benefit of regular saving, making the most of diversified investments in ever-changing markets.

"Many people unfortunately feel that if stock markets fall, they should stop their long-term savings, rather than reap the potential longer term rewards of buying funds when they are cheaper," explains Worthington.

As a result, a broker's approach today might be to sell a scheme where the insurance company takes the investment risk and delivers a more conservative return to the customer, for example 3% to 4%.

"They are happy with that because it avoids market risk," he says. "And for a certain level of customer in terms of level of income and financial literacy, this fits."

an important aspect of the HNW financial plan – which has typically been met in the form of Universal Life (UL) policies.

However, the potential risks of such policies needs understanding, given that they have essentially been used as single-premium vehicles with a guaranteed return. "The risk for the insurer is that Interest rates are very low relative to the guaranteed returns on offer," explains Worthington.

A MORE RELEVANT OFFERING

There are ways to pass this risk on, for instance via reinsurance. But that only serves reinforces Worthington's belief in diversification of products as an important goal going forward.

"Technological advancements now allow product providers to engage with customers and potential customers, enabling an understanding of needs."

For the next customer segment up, however, the appetite to take on some market risk and exposure, but without doing the required research, means they need to have a conversation – whether a broker, bancassurance agent or financial adviser.

"With this risk comes a high potential return, so there will still be a place [in Hong Kong] for unit-linked policies," adds Worthington.

Further up the wealth pyramid, at the HNW level, he still sees demand for both insurance and investment products as succession planning continues to be

This also comes back to the need to identify customer segments to be able to then build relevant solutions.

"Whereas previously products were created and sold, technological advancements now allow product providers to engage with customers and potential customers, enabling an understanding of needs, with products designed to meet specific needs," he explains.

And with Hong Kong citizens still accounting for around 60% of the market, there is a lot of scope for a domestic business doing just this.

"Once people understand what they need at a very basic level, and product providers have a suite of products to match those needs, and a platform for customers to purchase, more and more customers will purchase directly, when they feel professional advice is not needed," says Worthington.

This will stem from better communication in the first place, which will lead to greater results from the digital connectivity that Zurich is driving.

"Research shows that the Hong Kong market has a higher propensity within Asia to transact and purchase online," he explains. "Around 90% of millennials research their financial products online and 70% already do their basic banking through their smartphone. There is no reason why basic necessity insurance doesn't fit into this trend."

In 2016 direct digital sales of life insurance accounted for less than 1% of total sales (by premium paid) in Hong Kong.

Worthington believes digital marketing holds the key to creating the real potential for growth, along with the education of customers to give them a greater propensity to buy.

MIND-SET SHIFT

At the same time, individuals working within the various insurance distribution channels in Hong Kong need to evolve the way they approach customers. Needs-based conversations are the way forward.

For many local IFAs, reinventing their value proposition to survive in Hong Kong's new, advice-driven environment comes back to the common need to be more customer focused.

"The local distribution channels, whether agency, IFA or bancassurance, need to take a step back and focus on the psychology of the sales process," explains Worthington.

"The local distribution channels... need to take a step back and focus on the psychology of the sales process."

In practice, this means a mind-set shift. They need to take the time to do proper research into their customers to first understand their needs.

At the same time, they must gain the required knowledge about the variety of products available.

Wider recognition of the fact that financial planning is a career – and one which can be very rewarding and lucrative – would help. "It shouldn't be viewed as get-rich-quick option," says Worthington.

A JOINT EFFORT

It should be the responsibility of product providers, too, to influence the market in this way. Whether banks or insurance companies, they should be giving basic salaries and basing remuneration on behaviour as opposed to pure financial metrics. "The results of poor quality and non-customer focused behaviour, could and should filter out of the industry sales people with a high focus on self-interest. Product distributors need a truly customer-focused culture if customers are going to have a long-term relationship with them based on trust," says Worthington.

"A company's culture is the sum of all its employees' behaviours, and if the culture directly affects the longer term value of the company, poor behaviours will not be tolerated," he adds.

As always, the key ingredient is education. "Ultimately, this need to start within the schools, with financial planning integrated into the curriculum from an early age, right through to career advice at secondary and tertiary level when career advice is given," he adds, "once there is more promotion about what the financial planning industry is and what the potential jobs are."

If people can view their role first and foremost as providing a service, then they will be more likely to be able to earn a good income for delivering this over the longer term.

"We need people to be life-long financial advisers, not just seeing it as a stepping stone to something else," he explains.

Yet the customer education must happen in tandem. "Ultimately, there is no point changing the behaviour of the sales force if the behaviour of the customer is still motivated by short term investment gains, and the belief that there should be double-digit returns without paying any fees or taking any risk," he adds. ■

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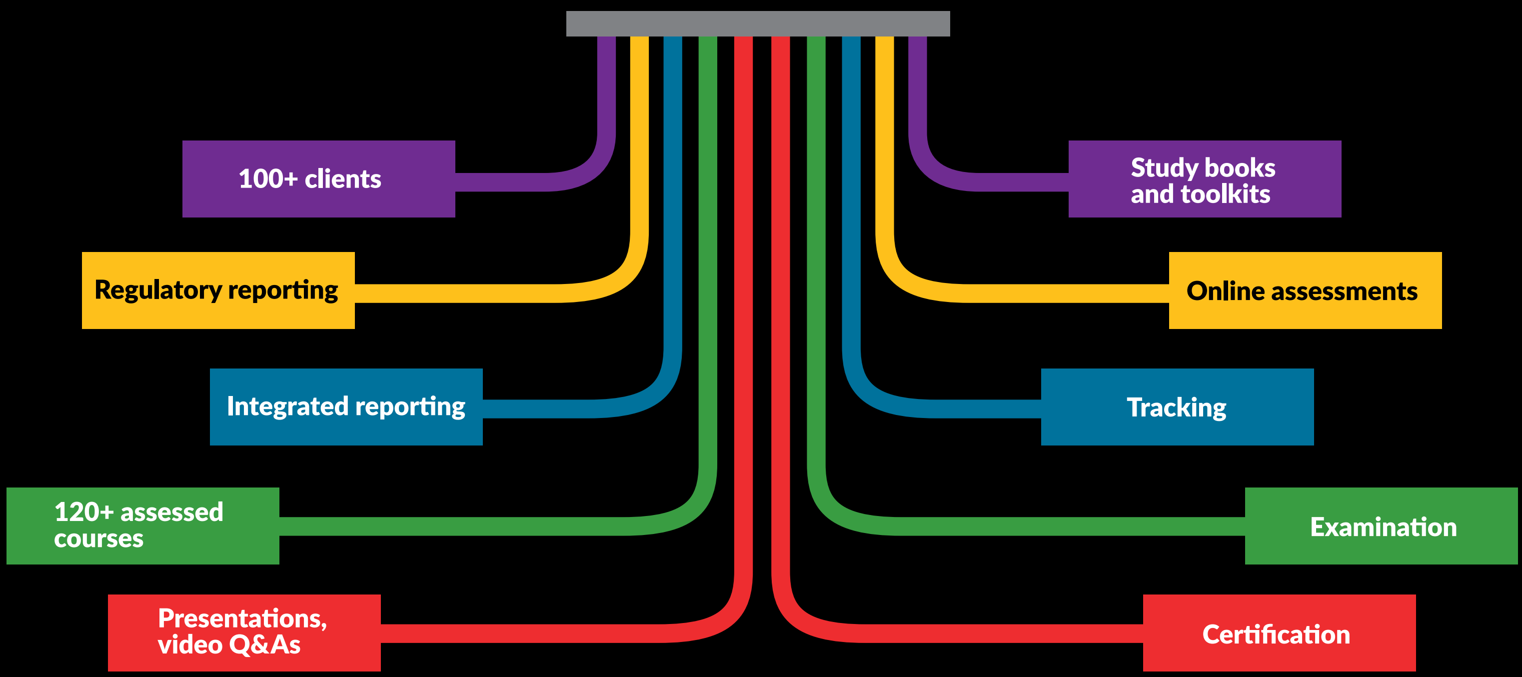

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PWM PRIVATE WEALTH MANAGER

Reinventing advice and value in Asian wealth management

Our 7th annual event for the most senior individuals in Hong Kong's wealth management community saw nearly 300 practitioners discuss how the industry can refine its value proposition and capitalise on the growing client needs for sound advice.

At a time of so much change and uncertainty for the industry, wealth managers of all sizes and business models need to pay closer attention to what brings real value to clients.

The concept of needs-based conversations is ever-more critical, backed up by the right advice and relevant, contextual, timely information – via a blend of digital and human touch-points.

Yet for many institutions, this seems harder to achieve than they think it will be. And with the next generation an increasingly important segment, there is a pressing need to adapt service offerings and solutions, as well as the ways to deliver content and advice.

Further, the industry is increasingly polarising. Those firms making headway seem to either be the largest institutions with scale, or the niche players which have an 'independent' mind-set.

In particular, the regulatory direction – both globally and in Hong Kong – is likely to create a shift in wealth management models to fee-based solutions from transaction-based sales.

As long as the incentive structures at most banks don't change, the style and substance of advice given to clients will be questionable.

Increasing compliance, risk and administrative costs will simply further erode profit margins and speed up the consolidation wave within private banking in Hong Kong and Singapore.

There also continues to be a significant opportunity to help China's wealthy population to diversify, protect and pass on their wealth – assuming firms can tailor solutions to the needs of this younger group of HNW clients and the unique nature of the regulatory environment in the PRC.

For all players, it seems that differentiation in strategies and value propositions is key to survival and success. ■

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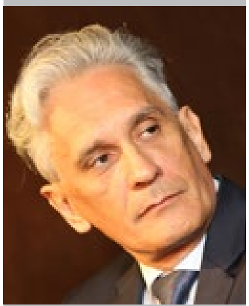
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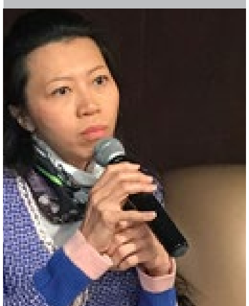
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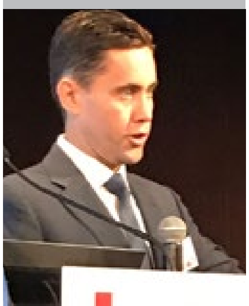
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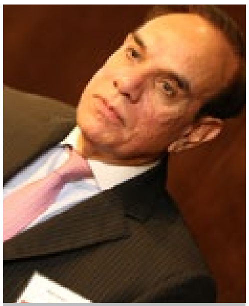

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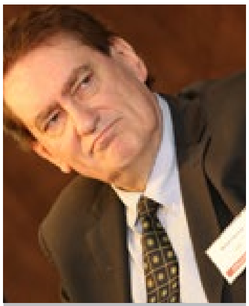

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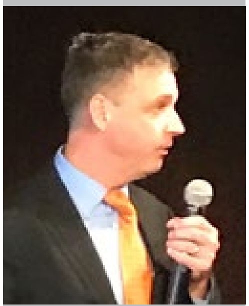

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Towards a 2020 vision for independent wealth in Asia

Our 5th annual event for the independent wealth management community in Asia, hosted in conjunction with the Association of Independent Asset Managers (Singapore), drew more than 300 senior practitioners – from a mix of independent wealth managers and multi-family offices, as well as senior private bankers wanting to learn more about this increasingly influential and expanding segment.

As highlighted by Steve Knabl, president of the AIAM in Singapore, on the back of a thriving local independent community more recently, it is time to prepare for the future, to take the industry to the next level.

Doing so requires an effort by independents along with private banks as custody platforms – and even the regulator – to drive greater industry collaboration and promote a more inclusive professional involvement.

This, believes Knabl, plus many other industry players, will in turn foster best practices in relation to regulations, digital integration, risk management and all peripheral industries.

And this is essential, given the backdrop of the evolving economy populated by millennials and digital expectations.

With a view to a 2020 vision for this segment of the industry, acquiring, building and harnessing new skills – such as digital – are critical success factors.

While Singapore has moved further and faster in this space, Hong Kong has a growing crop of independent firms which are now coming together under a local association too.

Ultimately, developing clear and sustainable business models that charge clients in a way which is in their long-term interests, relies on key elements. These include, for example, a sharing of knowledge, the formation of synergies and the creation of economies of scale through strong partnerships with all industry stakeholders.

Only by reflecting on where the industry has got to, and exchanging ideas on the possible path to the future, can the independent community evolve. With such a willingness to do so, individual firms – as well as those custodians and third parties needed to support and facilitate growth – must ask themselves as a business where they think they will be in 2020, and what they need to do to get there. ■

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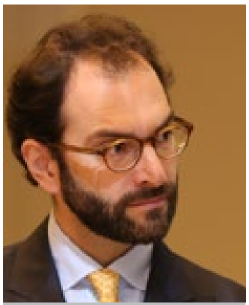

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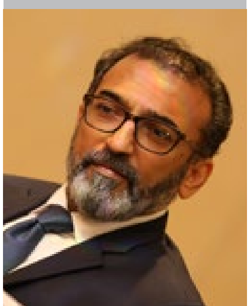

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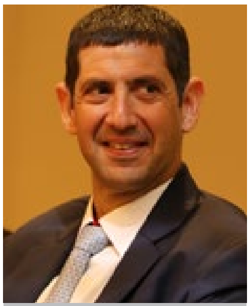

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How can we really deliver value to our clients?

Everyone in wealth management talks about the importance of knowing clients well enough to differentiate themselves and 'add value'. But this requires a commitment to quality of advice and a conducive business model to build trust over time.

Giving clients what they want is far easier said than done when dealing with Asia's wealthy.

While clients' needs are getting more complex, yet their access to information is lightning fast and their understanding of what's available more sophisticated, too many wealth managers still approach them in a short-term fashion.

It is not just about getting more AUM, but rather understanding the emotional value they place on their wealth. Without this, the client won't be able to differentiate the approach that one firm takes compared with another.

This requires firms – and individual bankers and advisers – who care, plus are competent. They need to know the client properly, including their needs and aspirations, to be able to help them achieve their goals.

Meanwhile, while knowing the customer is a fundamental principle of good wealth management, it is important for organisations and bankers to also know themselves.

This translates to understanding their core competence, and ensuring they have what it takes to deliver to customers what they are looking for.

Further, with an environment which is increasingly holding advisers accountable for any advice they give to a client, this should lead to a change in the way they approach the relationship and what they recommend.

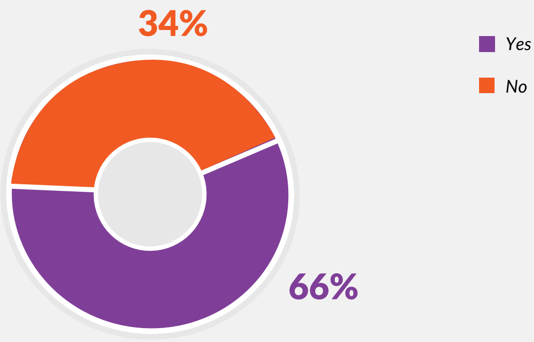
This is according to several senior industry practitioners, representing a mix of organisations across private banking, retail banking, single and multi-family offices, insurance and fiduciary services – speaking at the 7th annual Hubbis event in Hong Kong.

Panel speakers

- ***Vincent Chui**, Managing Director, Head of Asia Institutional Equity Distribution & Private Wealth Management, Morgan Stanley*
- ***Anthonia Hui**, Chief Executive Officer, AL Wealth Partners*
- ***Malik Sarwar**, Global Head of Sales Management, Group Wealth Management, HSBC*
- ***Tuck Meng Yee**, Partner, JRT Partners*
- ***Thomas Young**, Head of High Net Worth Business, Generali*
- ***Debby Davidson**, Group Business Development Director, Asia, Equiom Group*

Vincent Chui, Morgan Stanley

IS OVER-REGULATION KILLING PRIVATE BANKING IN ASIA?



Source: Hubbis Asian Wealth Management Forum 2017 - Hong Kong

Anthonia Hui, AL Wealth Partners

WELL-PLACED

Ultimately, adding value means showing 'tough love' to prevent a client from panicking and either going into 'flight' or 'freeze' mode depending on market movements.

Even if this means doing less business with a client, it engenders more trust in the long run. After all, risk management is key to preserving wealth.

In line with this, there are clear signs of slow but gradually increasing demand for independent/external asset managers and multi-family offices.

The kind of flexibility and deeper understanding of client expectations which characterises many of these organisations means they are able to offer a variety of solutions.

This includes meeting clients' needs for services from their wealth manager which might include, for example, pre-IPO investments, leverage and financing for non-bankable assets and club deals.

Further, other services that clients are seeking include succession planning. And for entrepreneurs, in particular, corporate finance solutions are relevant.

What should also be increasingly relevant are insurance products to offer clients their much-needed protection as part of a needs-based conversation. And wealth managers need to step out of their comfort zone to have such a discussion.

Malik Sarwar, HSBC

At the other end of the spectrum, industry practitioners believe that some of the big global banks are also in a position to add value alongside the boutique wealth providers.

This is viable with sharper segmentation, based not just on size of client portfolio but also on their sophistication, life stage and generational needs.

At the same time, although some HNW clients remain with the international banks due to reputation and credit risk, local institutions are capitalising on the varied needs of the generation of 'new' money.

Tuck Meng Yee, JRT Partners

Sharper segmentation [is needed], based not just on size of client portfolio but also on sophistication, life stage and generational needs

A REGULATORY FAVOUR?

For any model, however, there is little doubt about the sustainability of a more holistic approach to money management that includes banking, borrowing, investing and insurance, according to speakers.

This needs to be done within the context of an asset-based approach to charging fees.

And in this respect, some industry players believe the regulators are helping bankers to be more client-centric by fostering a culture which looks beyond transaction-based commission towards fee-based solutions.

However, this is also linked to how and why customers are behaving in a certain way – not always about how the banks charge for their services.

The mind-set among clients in Hong Kong, in particular, will take some time to change, given they are very fee sensitive.

Yet recognition for some of the independent players of the advice-based fee model comes from those clients who are also business people.
They place value in a service they consider to be of high quality.

Thomas Young, Generali

Delivering what clients need will always enable a wealth manager to come to an understanding with a client about how they can get paid for their service.

Debby Davidson, Equiom Group

Yet the quality of advice doesn't improve purely because of regulations; it still depends for clients on who they are dealing with. So it isn't the regime itself which is the cure, but rather the enforcement of that regime.

On the flipside, there is a feeling among some industry practitioners that over-regulation is killing private banking in Asia.

For example, concerns over what they can say to clients potentially makes bankers too frightened to deliver advice with any conviction.

This comes back to knowing the client properly. Combining this with strict adherence to the complex rules now in place is not a stumbling block.

It also becomes obvious to advisers if they are doing a good job. From a relationship level, a banker knows when they are the first call from a

It becomes obvious to advisers if they are doing a good job. From a relationship level, a banker knows when they are the first call from a customer

customer, or if they are being invited to a client's family event, or when that clients starts to share family secrets or insights.

Secondly, wealth management firms need to ensure they provide product excellence.

The regulatory-led demand for transparency means it isn't possible to charge for certain products. This requires a high degree of product excellence, therefore, to be able to make money and manage risk to the extent that clients are willing to pay for the service. ■

Banking on growth in independent wealth in Asia

For those custodians which can get it right, independent firms present a growing and potentially lucrative opportunity amid an otherwise challenging environment. A platform with the right people to deliver on the need for flexibility is a good starting point.

Although specific figures on how much of the private wealth in Asia is handled by the independent model are not very precise (believed to be somewhere around the 5% mark in terms of penetration), it is clear that this model is gaining traction, especially in Singapore.

Projections by many practitioners and EAM desks are that the market share of independent asset managers (IAMs) and multi-family offices (MFOs) will double over the next five years – to reach around 10% of AUM in Singapore.

And some of the banks which seem to be a bit more committed to this segment are hiring more relationship managers specifically servicing IAMs and MFOs.

For the time being it will remain a bit more of a volume-driven business, but one which can still be profitable if it is a focused effort.

For example, it is therefore a way for the banks to leverage their existing platforms to a wider array of clients. They can therefore grow their AUM not only with assets from in-house bankers but independents as well – offering a way to diversify that is complementary to the traditional private banking business.

The key, say EAM desks, is to treat IAMs and MFOs as business partners, not as competitors.

Further, some of the more forward-looking EAM desks are therefore also concentrating on those IAMs and MFOs with the greatest potential to grow. This is to ensure there is the scale and extent of assets to make it worth it.

SIZE NOT THE ONLY SUCCESS FACTOR

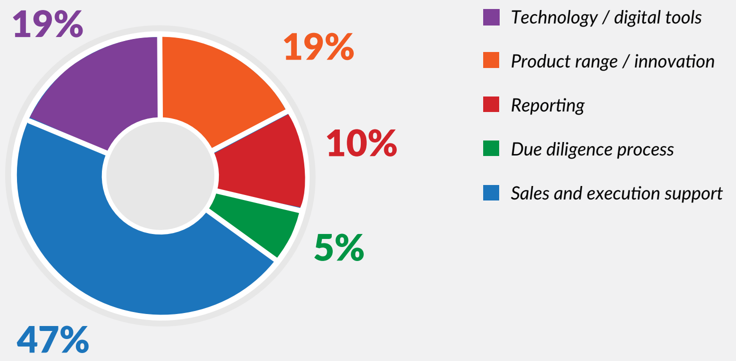
The ongoing global debate within private banking as to what is the critical size to survive in this industry has relevance within the EAM business too.

Panel speakers

- ***Sascha Zehnter**, Managing Director, Head of External Asset Managers, South-east Asia Private Banking Division, and Head External Asset Managers, Asia Pacific Platform, Credit Suisse*
- ***Thomas Jost**, Executive Director, Head Intermediaries South East-Asia & Pacific, Bank Julius Baer*
- ***Sylvain Gysler**, Executive Director, Head of Intermediaries & Multi Family Offices, Asia, VP Bank*
- ***Olivier Parriaud**, Head of Financial Intermediaries, Singapore, Indosuez Wealth Management*
- ***Eduard von Kymmel**, Head of VP Fund Solutions, VP Bank*

Sascha Zehnter
Credit Suisse

WHAT SERVICE IS MOST IMPORTANT TO AN EAM / MFO FROM A CUSTODIAN?



Source: Hubbis Independent Wealth Management Forum 2017, Singapore

Eduard von Kymmel
VP Bank

Some of the larger banks say that scale of the IAM platform is crucial, but that this needs to be looked at in relative, not absolute, terms.

IAMs and MFOs also know that global banks have a greater ability to source deals, and offer a wider reach and more financing power – all of which can be key when it comes to first- or second-generation money which tends to still be highly-involved in their industries.

Other, smaller players don't think there is such a magic threshold, believe a bank or a platform can be profitable in servicing IAMs and MFOs. In particular, since business models vary among IAMs, it is the adaptability of the platform to these specific models which is key.

Perhaps more important than the size to the success of a platform, is also the level of understanding among all departments involved of the specifics of the IAM business and referred clients, say the EAM desks. This includes the back office, compliance, IT and legal. Experience and flexibility therefore matter more than scale.

As a result, the big versus small question is the wrong debate to have for banks servicing independents, say the EAM desks.

Instead, it is about prioritisation. Is it a core segment for the bank? And is the bank willing to invest in it?

This requires support from management at the highest level. This will impact the quality of service along with

Olivier Parriaud
Indosuez Wealth Management

the flexibility in finding the kind of tailor-made solutions required to meet the needs of IAMs and MFOs for their clients.

Especially due to the complexity of the business and operating environment today with tax, cross-border and suitability rules, for example, all banks have had to define and focus on their value proposition.

In addition, where end-clients are bank-agnostic and the IAM or MFO takes the decision about which custodian to use, the level of comfort with existing relationships rises to the fore.

In relation to this, some banks say they have started to see a trend towards smaller institutions thanks to increased flexibility.

Some of the more forward-looking EAM desks are concentrating on those IAMs and MFOs with the greatest potential to grow

Ultimately, due to the specificities and differences in IAM and MFO models, there is a need for various styles of custodians to service them.

Further, the relevance of a custodian bank also comes down to the strategic choices it has had to make in terms of which markets and products they decide to concentrate on, and which they exit.

WHAT MATTERS TO INDEPENDENTS

Some EAM desks say they see a shift in the way IAMs and MFO gravitate towards certain custodians; the trend is towards these advisory firms becoming more proactive and inter-dependent.

As a result, whether the custodian is large or small, the partnership between the two parties is becoming stronger and more focused.

Yet inevitably, as custodians first and foremost, the quality of the custody and execution is crucial.

Further, with the current regulatory environment shining the spotlight on suitability and cross-border issues, and in turn creating difficulties for the intermediated wealth management business, the quality of the processes and controls comes into play.

Sylvain Gysler
VP Bank

By extension, a fast and efficient onboarding process now comes high on the list of requirements for IAMs and MFOs.

As a result, the experience of the bank's staff handling IAMs and MFOs are again important to ensuring long-term profitability. Indeed, many EAM desks agree that their people are a key differentiator.

In turn, this makes it more likely the bank will offer flexibility to provide out-of-the-box solutions and mix-and-match services and products in new ways to satisfy the needs of IAMs and MFOs on behalf of their clients.

Thomas Jost
Bank Julius Baer

Those components of the offering which many EAM desks say tend to be more or less generic between custodians include technology, product shelf and service offering.

Yet some banks believe the access to information via digital and other tools continues to be a key point of differentiation.

The experience of the bank's staff handling IAMs and MFOs are again important to ensuring long-term profitability

ENOUGH BUSINESS FOR EVERYONE

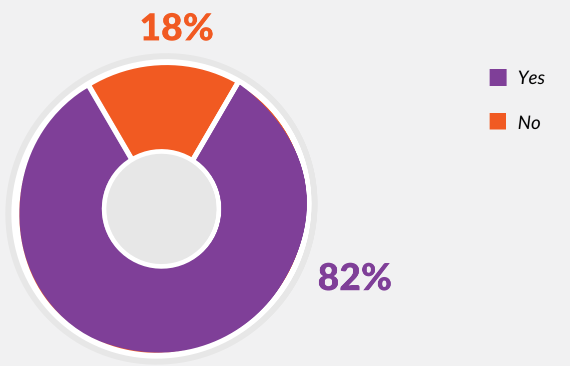
Despite the pessimism surrounding international private banking generally, the EAM desks believe their model has a robust future.

For instance, a large part of Asian wealth is not handled by private banks nor even by professional money managers.

With the right value proposition and client education or messaging, IAMs and MFOs with their business models and flexibility can appeal to clients who might not be attracted to larger institutions in the first place.

This bodes well for EAM desks playing an increasingly important role going forward within the banks.

WILL THE NUMBER OF PRIVATE BANKS WHICH OFFER SUPPORT TO EAMs / MFOs IN ASIA CONTINUE TO CONSOLIDATE?



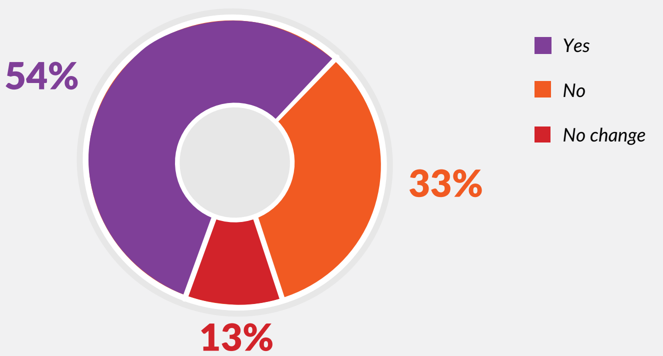
Source: Hubbis Independent Wealth Management Forum 2017, Singapore

They might even spearhead regulatory change for the rest of the bank through anticipating these changes on a B2B level – rather than a B2C one.

At the same time, however, not every custodian should look to compete in this space – depending on their platform.

Plus, there might not be enough business for everyone to make it profitable enough. For example, a first-choice custodian for an IAM or MFO might get about 50% of the assets, with 20% and 10% going to the second and third banks respectively. This shows that the AUM of the independent firm must be quite large to justify so much investment by some banks. ■

WILL EAMs / MFOs REDUCE THE NUMBER OF CUSTODIAN BANKS THEY USE, SIGNIFICANTLY, OVER THE NEXT 5 YEARS?



Source: Hubbis Independent Wealth Management Forum 2017, Singapore

Singapore vs HK - a polarising landscape emerging?

Both financial hubs have growing communities of independent asset managers (IAMs) and multi-family offices (MFOs), despite the segment developing at a different pace. Yet Hong Kong is showing some signs of lagging when it comes to competitiveness.

There is no doubting the optimism among business leaders working with IAMs and MFOs for this segment in Singapore and Hong Kong.

Both locations have now got a louder and more united voice via respective associations, and some positive regulatory steps overall when it comes to industry dialogue.

However, the commercial competitiveness of Hong Kong has more recently been called into question as an efficient place for smaller wealth managers to do business, including for newly-licensed firms.

The main limitation, say local industry practitioners, is either being rejected from getting a corporate bank account with a Hong Kong institution, or simply the process is taking way too long.

Yet this is also creating some new opportunities – both for larger firms to form in Hong Kong as well as a shift to Singapore or Singapore-based financial institutions to potentially partner with.

As a result, despite the connectivity with mainland China and other advantages, the industry has a keen eye on the market opportunities in both Singapore and Hong Kong.

These were some of the take-aways from a discussion involving key independents from both hubs at Hubbis' 5th annual event in Singapore for Asia's community of IAMs and MFOs.

MAKING LIFE TOUGH

Hong Kong's banks are making it challenging for local businesses run by Hong Kong nationals, as well as for expatriates with permanent residency, to do the corporate banking they need to.

Panel speakers

- ***Etienne Billaud**, Senior Relationship Manager, SingAlliance*
- ***Patrick Busse**, Director, Head of EAM South East Asia & International, Credit Suisse*
- ***Jessica Cutrera**, Managing Director, The Capital Company*
- ***Riccardo Lehmann**, Managing Director, Swiss Asia*
- ***Nigel Rivers**, Founder and Chief Executive Officer, Capital Solutions*

Etienne Billaud
SingAlliance

As a result, some practitioners believe IAMs and MFOs will struggle more than they should; some might even not survive.

DBS and Shanghai Commercial Bank have been two of the institutions to benefit from the Hong Kong banking stance.

For practitioners, the logic seems misguided, especially given that IAMs and MFOs do not have custody of a client's assets. This should therefore leapfrog many of the KYC and due diligence excuses for slow – or no – account approval.

However, getting more common sense into the process will take time.

Riccardo Lehmann
Swiss Asia

BRIGHT SPOTS

More generally for the IAM and MFO opportunity in Hong Kong, more and more firms are applying for the relevant licences and participating in conversations around how to evolve fee models.

Singapore, meanwhile, has over time been particularly proactive in facilitating the development of the independent wealth industry.

Its family-office focused dispensations for firms setting up in the city-state have, for example, encouraged and attracted some licensed independent firms to bring money to Singapore.

For many players, regardless of where they are based, it is less a question of one city versus the other, and more about how to grow the business in both regional centres for the benefit of the industry.

Some practitioners also say they see more understanding between regulators – especially as some IAMs and MFOs are looking at offices in both financial centres. This suggests a likelihood for a certain amount of collaboration going forward to help spur growth.

For clients in places like China, Indonesia, Thailand and other local markets, having a choice of IAMs and MFOs across two jurisdictions can also be a bonus.

Sometimes, for example, such clients prefer to avoid using a jurisdiction which is close by.

Jessica Cutrera
Capital Company

HONG KONG'S GRADUAL GROWTH

Hong Kong, meanwhile, is also a growing market for IAMs and MFOs, but is still significantly smaller in this segment than Singapore.

The creation of an industry association in mid-2015 has helped to accelerate the development of the segment and encourage a few high-profile launches of new firms. Yet the landscape in general is a lot more fragmented.

Key to the work of the respective Associations in each city to try to drive larger, more inclusive industries is education – both for the industry, especially in terms of the bankers themselves, and also the end-clients.

There is also a lot of work and support in relation to compliance updates, along with dialogue with the regulator to represent the best interests of the industry and try to give it a louder and more meaningful collective voice.

Nigel Rivers
Capital Solutions

Indeed, greater awareness of this industry – especially in Hong Kong, where the Association is newer – has an ultimate goal that the local securities regulator sees this segment of the industry as an active and valuable market participant.

There is reasonable scope for optimism in Hong Kong, say practitioners, given the watchdog seems to be trying to be more accommodative and flexible.

For example, there have been consultations on clarifying and simplifying certain concepts – including a new Professional Investor status, and a new 'independent' definition.

REALISTIC OPTIMISM

Broadly, practitioners in both Hong Kong and Singapore share positive views about the trajectory of the independent segments in both hubs.

For example, they see a trend where clients are seeking clearer advantages from their managers in the form of more obvious added value.

Further, clients are gradually starting to understand the need – and potential benefits – from paying for advice and management fees.

Yet this won't come without more time and some disruption to the industry, across private wealth management.

For instance, more banks are likely to either close shop or re-prioritise most of their resources. And this is where IAMs and MFOs also stand to gain.

Patrick Busse
Credit Suisse

Disruption knocks on Asia's advisory door

The next 12 to 24 months will finally see fintechs and digitalisation impact the value propositions of many types of players across the industry in the region, despite the hype to date. How and where this happens is still up for grabs, it seems.

Judging by the views of most of the 160-plus respondents to a recent Hubbis survey on digitalisation in Asian wealth management, the industry is on the verge of significant and irreversible digitally-led change.

Such consensus – across a mix of senior management and front-line practitioners, plus some of the leading fintechs and other service providers operating in the region – has far-reaching implications for all types of institutions and advisory firms, and of all sizes.

They need to rethink how and where they invest, and the most effective ways to resource themselves, to align with the core value which they bring – or at least want to be perceived as bringing – to their clients.

Most likely, to get the desired results, this will involve a partnership approach. This means start-ups teaming up with more established financial players to deliver a combination of innovation-plus-experience to create the essential ingredients for clients today – relevance and context.

Practitioners are also cognisant of the need to not let clients feel their wealth management partners are lagging behind them as automation capability becomes part of all other aspects of their everyday lives.

Ultimately, in the drive to deliver customised investment advice and outcomes, distributors like banks, independent advisers and insurers which are ahead of the curve will need to launch algorithm-driven tools that allow their clients to understand their individual risk appetite, investment horizon, level of financial expertise and idiosyncrasies.

This foundation will then enable simple portfolio building and factor-based investing tools to follow.

Key take-aways

- *What do digital wealth management means to industry practitioners across Asia (see box on page 2)*
- *Oganisations need to think and behave more like technology companies*
- *The positive impact of digital is more widely predicted to be delivered through start-ups and new players*
- *Collaboration is the inevitable and most realistic way forward for traditional wealth management firms*
- *The availability of more data, and better use of it, will drive the development of better solutions to clients.*
- *Big Data is considered the most under-utlised area of banking currently – yet one which has the potential to have the most profound impact on the industry*

PREPARING FOR THE INEVITABLE

Undeniably, digital is core to the future for wealth management. It represents the evolution of the business to meet the needs of developments in client needs and preferences.

For someone like Vineet K Vohra of Arete Financial Partners, for example, this means helping wealth managers leverage the power of digitalisation in several ways: encouraging channel automation, data analytics and robotics to gradually strengthen management processes.

"[It is about] taking the human away from the mundane to the more complex, nuanced domain of thoughtfulness, empathy and responsive action," explains Vohra, director and practice leader at the firm.

Yet digitalisation has its pros and cons. On the 'plus' side, it attempts to simplify, speed up and, hopefully, maximise efficiency.

This is clearly a bonus for most in the affluent space. Here, clients gravitate towards lower-cost platforms that avail what was previously the domain of private banks. This includes thorough investment profiling, benchmark asset allocation models, open-source product shelves, investment research and lower-cost execution.

As offerings become more widely available and commoditised, wealth management firms need to automate much of these, requiring digital solutions internally as well as in the client-facing arena.

"[Digital] starts with the customer and makes it extremely simple for them to manage their needs," says Sandeep Deobhakta, division head of retail banking at Vietnam's VP Bank.

"For the institution it's an opportunity to reduce costs and transform the customer experience."

A 'minus' for digital, however, is the fact it de-personalises and commoditises the offering and interactions. And one-on-one, emotional relationships are still core to what many wealth managers believe help them stand out – especially further up the wealth pyramid.

In this higher-net-worth segments, more information is captured about

"[Digital is about] taking the human away from the mundane to the more complex, nuanced domain of thoughtfulness, empathy and responsive action."

VINEET K VOHRA
Arete Financial Partners

Defining digital wealth management – what does it mean to you?

- *Disruption to traditional business models, but at the same time enabling more innovative products and services for clients*
- *Using technology to either replace and/or make more efficient and add value to current and traditional processes*
- *Change and moving with the times – including staying ahead of clients who are technologically advancing and are setting their own expectation levels*
- *Saving time and other resources to achieve effective results*
- *Ensuring automation and efficiency with zero manual intervention, in order to make decisions instantly*
- *Enabling data collection and management, allowing the presentation of selected information without manual intervention*
- *Facilitating customised portfolio management*
- *Incorporating business intelligence and artificial intelligence (AI) from front-to-back with a view to (i) saving manual costs; (ii) strengthening internal controls; (iii) creating operational efficiency and effectiveness; and (iv) detecting any irregularity or suspicious transaction*
- *Using Big Data, analytics and metrics to help prevent AML/CFT, financial crime and corruption, talent management, risk management, and business and investment decision-making*

On the horizon

There are several key ways that wealth management firms say they are likely to implement digital solutions over the next 12 to 24 months:

- *Functions via Big Data and mobile technology – both in terms of product development and improving the client experience*
- *Expanding bank retail services through online offerings with a better client interface and information systems*
- *Robo-advisory platform and back-office blockchain efficiency improvements*
- *Online client communication tools, making available more information available to them directly*
- *A more comprehensive mobile experience eliminating the need to speak with an RM*

clients and their needs. These must therefore be overlaid with market information on suitable opportunities to deliver distinctive value-adding services – particularly advice – on a client's (relatively) more complex requirements.

Without digital tools, how can firms and advisers leverage ever-larger amounts of data to identify the right solutions for clients in order to justify the fees?

LIMITED DISRUPTION TO DATE?

The optimism and expectation around digital wealth management, which many see as an inevitably, doesn't convince everyone.

Indeed, many market practitioners are adamant that there is little tangible evidence so far of fintechs or robo-advisers creating any real disruption in the industry in Asia.

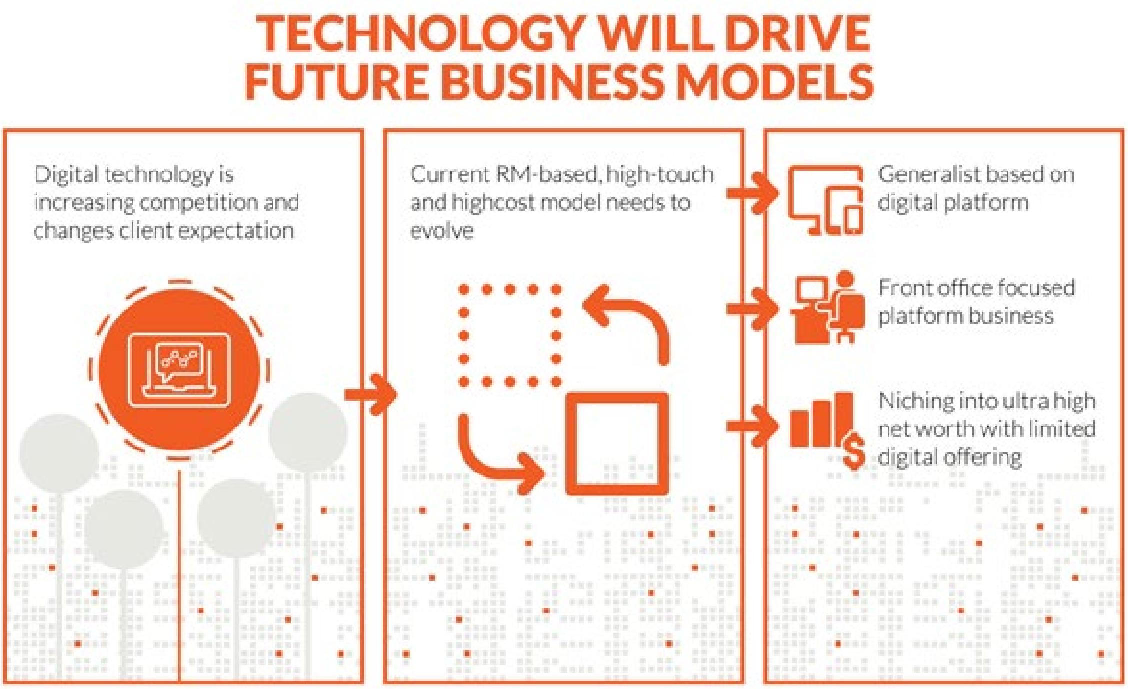
One of the survey respondents who works for a large private bank, for example, says he still expects to be subject to more of the same in terms of the unavoidably-painful process of delivering, at best, mediocre improvements via an outdated model.

And he is resigned to the fact that this will be delivered by a combination of internal developments and third-party solution providers able to attach to the bank's core operating platform.

It might also take more time for robo-advisory to be adopted in local markets in Asia given that these are more commonly to be relationship-based advisory environments.

It seems more realistic that only once the first layer of millennials take over as 'captains of industry' will digital make more in-roads.

Fundamentally, the impression of some industry practitioners seems to be that most of the traditional banking organisations in Hong Kong and Singapore talk a lot about being digital, but struggle to actually make required changes; the culture is lacking.



"There will be a focus on productivity, enhancing customer service and meeting compliance needs."

ADRIAN GOSTICK
BondIT

For example, some industry experts say that incumbents continue to move slowly. These practitioners observe a lot of 'fanfare' about fintech disruption, with major banks promoting their own incubators and 'disruptive' fintech festivals – but largely brand such initiatives as PR exercises.

And fintechs which get selected, say they often can't access the sponsoring bank as a client.

Even if they are an interested client, which is the exception, the onboarding process can take more than one year in some of the major banks, just to review and sign basic legal agreements.

Yet time is one thing fintech firms do not have as funding is limited, particularly for early-stage, pre-revenue start-ups.

This is tied to another of the reasons for the slow take-up in Asia – that a lot of start-up fintechs are struggling to raise capital to take their offerings to the level where it will make the difference. Investors seems to be too focused on looking for the next 'Google' instead of a range of companies that, combined, could make just as much of a difference.

The digital capabilities and disruption so far has been on speed on transaction services. And event here, progress has generally only been made on very simple, commoditized-type products.

Yet although many robo-advisory solutions are quite basic, some observers say that they have resulted in disruption in the market for investment advice – in the sense that they have forced incumbent wealth and asset management firms to act.

Some of the applications of digital to date are more along the lines of:

- Automation of KYC/AML
- Aggregation of data
- Introduction of APIs to better connect existing technologies
- Better online banking covering, not just checking account or credit cards
- Personalised apps to clients to access investments and insurance portfolios in real time
- Communication with clients via tools such as 'live chat'
- Investment profiling and suitability assessments
- Social media
- Online trading and reporting

PROACTIVELY RESHAPING THE LANDSCAPE

To date, many banks has been that despite the flurry of robo-advisers and other fintechs emerging across Asia in recent years, institutions have not embraced them. This is a criticism levied at them based on the fact they haven't made a sufficient commitment to fostering real change or pushing the boundaries.

Among the possible reasons for this, especially at the HNW level, is due to the first-generation of fintechs being

"[Robo-advisory platforms will] become a challenge to the banks."

WILL LAWTON
Eigencat

more focused on building glossy front-ends rather than having robust investment processes.

Those individuals and organisations which are a little more forward-thinking, however, predict that the industry is on the cusp of real change.

They see the opportunities from embracing fintech and evolving with it – and don't want to be subjected to the greater challenges which will come from resisting it.

One of the technology vendors who shared his views, for example, has been working on a proof-of-concept for a family office that will facilitate a clear, real-time picture of the family's wealth at any time – down to individual allocations and exposures at the asset level, even including the attribution each asset makes to the portfolio.

"In the next 12 to 24 months we will start seeing new fintech services that will create disruption to the industry."

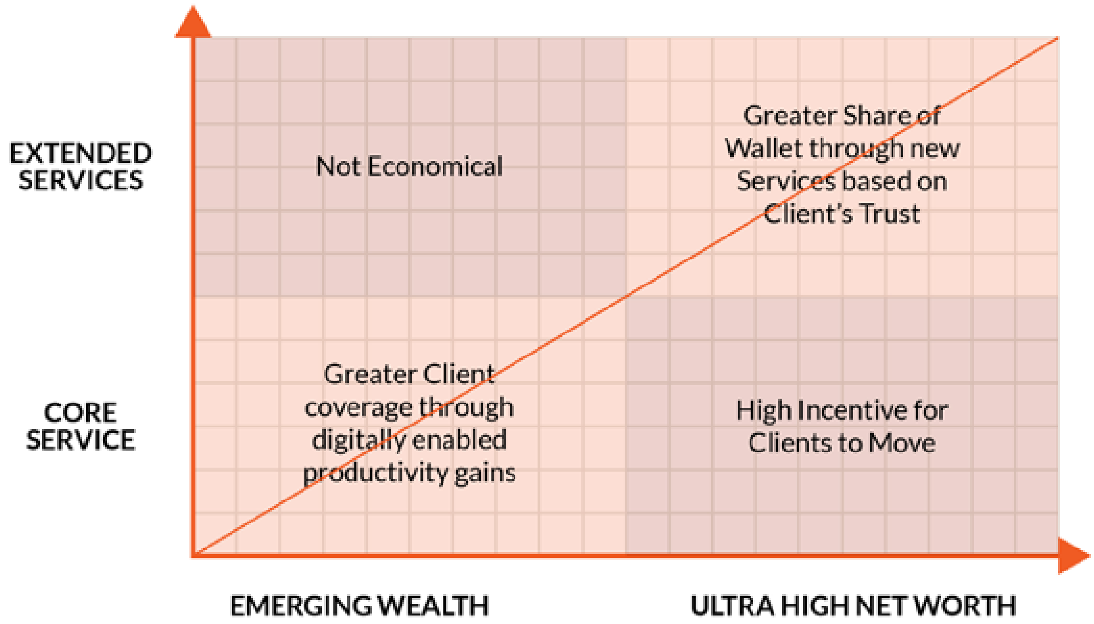
DONALD SOO
Orb Global Wealth Management

Further, this can be done for each member of the family, all the way up to the head, to enable a perspective on the full picture.

This should have added benefits, too, such as assisting with succession planning and reducing the time spent in court as well.

For multi-family offices, another big impact of fintech will come from (custodian) banks modernising their platforms to be able to more connect

EVOLUTION OF SERVICE THROUGH DIGITAL



digitally with external parties such as independent asset managers and fund managers.

"This will make analysing portfolios easier and more comprehensive," explains Riccardo Lehmann, managing director at Swiss Asia in Hong Kong. But will all banks adapt at the same speed? This is doubtful, he adds.

START-UPS TO SET THE PACE?

According to Will Lawton, co-founder of Eigencat, robo-advisory platforms will improve their propositions dramatically over the next 24 months. "[They will] become a challenge to the banks," he predicts.

Part of this involves getting multi-product, professional-grade investment advice, to ensure relevance. And this is only realistic when experienced investment professionals and asset managers are involved – specifically, people who have designed investment processes to combine their knowledge with technology. Lawton believes that such developments will only be delivered via new players.

A number of industry players share his view. The number of individuals working within large institutions who can bring real value to their clients are few and far between.

As a result, it is more likely to be the nimbler and targeted start-ups which will be able to hear through the noise to bring the most interesting new ideas to market. For true disruption to take place, however, the view among the majority of survey respondents is that some collaboration between old and new players is inevitable – and necessary. Adrian Gostick, managing director for BondIT in Asia Pacific, expects to

"For the institution it's an opportunity to reduce costs and transform the customer experience."

SANDEEP DEOBHAKTA
VP Bank

"It is more likely to be the nimbler and targeted start-ups which will be able to hear through the noise to bring the most interesting new ideas to market."

see the biggest impact of digital being delivered by collaboration – existing wealth management organisations partnering with fintech firms that bring capabilities which are necessary but which the firm is unable to develop.

"There will be a focus on productivity, enhancing customer service and meeting compliance needs," he predicts.

Especially in jurisdictions like Singapore and Hong Kong, which are making a clear government-level push towards fintech development via regulatory support and initiatives like sandboxes, the ecosystem of start-ups, fintechs and existing large financial institutions is set to thrive.

"In the next 12 to 24 months we will start seeing new fintech services that will create disruption to the industry," says Donald Soo, chief executive officer of Orb Global Wealth Management. At his own firm, for example, he is spearheading the implementation of a new CRM and portfolio management system. "I think our value proposition to clients will be enhanced, but the impact will be delivered across all players."

But start-ups need to be what Lehmann at Swiss Asia calls "good enough", so that the big players in the industry adopt these internally. "Just another portfolio consolidation software is not enough. And we don't need to reinvent the wheel."

DIGITAL IMPACT

Many practitioners in Asian wealth management believe a combination of Big Data analysis and machine-learning

"The speed of digitisation depends on the speed in which clients demand digital services which forces change."

FRANK HENZE
Mount Rose Partnership

capabilities will have the most profound impact on the industry – especially as they become more widespread and sophisticated.

According to Gostick at BondIT, wealth management firms barely scratch the surface of the data available to them. "There is an enormous quantity of data on customer behaviour, interests, future aspirations, life events, etc that today are not being leveraged and combined with available investment choices to derive portfolios of investments tailored to that individual client."

There is a lot of urgency around getting this right. Decisions must be made in the context of global events – political, economic, foreign trade, etc, and the mountain of information paves the way for fintechs as potentially useful tools to stick to the vital few pieces of data that matter most.

As organisations start tapping into this data and use it to better service their clients, including anticipating investment and client trends, the more competitive they will become. As a simple example, Gostick asks why Amazon can recommend books, films or music that it knows the customer will enjoy, yet banks are generally unable to proactively recommend any tailored investment advice to their customers? By contrast, one of the biggest challenges for many wealth owners in Asia is being able to aggregate all of their disparate pieces of information from multiple counterparties.

Only then are they able to truly understand what drives their wealth, and only then will they have the ability to make decisions in a fast-changing world. Big Data can also help to streamline the KYC/CDD and minimise the overall account maintenance and regulatory compliance costs. A key technical driver, believe some respondents, is a core operating platform which enables coverage and client-related modules to be seamlessly attached, drawing on appropriate data and information and enabling execution of transactions and communications.

What some practitioners believe the industry needs, is a mind-set shift beyond mobile and towards blockchain – given that the tools and techniques now exist to use it and turn data into insights, and then action. ■

Digitally impressive firms

The 160-plus respondents to this survey highlighted some of the different types of organisations – wealth managers and non-wealth managers alike – which can boast some interesting digital offerings.

Some of the most frequently mentioned companies by respondents, divided into specific categories – are:

Banks –

- *Credit Suisse*
- *DBS Bank*
- *UBS Wealth Management*
- *UOB Bank*

Robo-advisers –

- *Betterment*
- *Hargreaves Lansdowne*
- *Nutmeg*
- *Tilney Bestinvest*
- *Wealthfront*

Trading platforms –

- *Charles Schwab*
- *Interactive Brokers*
- *Saxo Bank*
- *TD Ameritrade*

Other companies –

- *Alipay*
- *Bondevalue*
- *Discovery Insure*
- *eWise*
- *Tencent*
- *Fidelity*
- *ING Direct Australia.*
- *Squirrel*
- *Vanguard*
- *Thomson Reuters*

Driving top and bottom lines with digital onboarding

Private banks in Asia can transform their business and meet ever-stringent compliance requirements through digital onboarding initiatives.

There is significant potential to digitalise the onboarding process at private banks in Asia.

To do this, however, organisations need to focus on some key aspects of running their business in order to drive this shift in mind-set and ways of operating.

These include efficiency, thinking about creating an enhanced customer experience, and creating a multi-channel delivery mechanism.

These were some of the take-aways from a discussion co-hosted with Appway, involving senior management in strategy, operations and technology in Asian private banking, on the current challenges of onboarding, and how a digital solution can benefit both the top and bottom lines.

"Organisations need to focus on some key aspects of running their business in order to drive a shift in mind-set and ways of operating."

A MINEFIELD

The onboarding process for wealthy clients is akin to a minefield for banks. Too many people are often involved in the process – ranging from the relationship manager (RM) and their assistants, to compliance officers, AML specialists

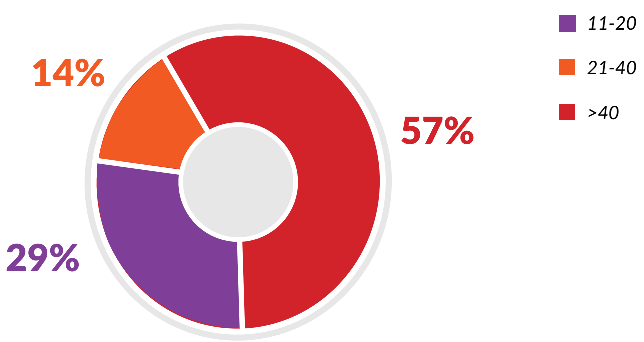
IS YOUR ONBORDING PROCESS PAPER-BASED OR DIGITAL?

Source: Appway

HOW MANY DIFFERENT PLATFORMS/SYSTEMS DO YOU USE TO ONBOARD A CLIENT?

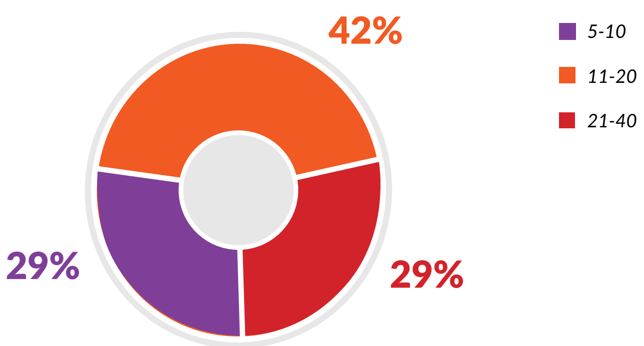
Source: Appway

HOW LONG (IN DAYS) DOES IT TYPICALLY TAKE TO OPEN A LEGAL ACCOUNT?



Source: Appway

HOW LONG (IN DAYS) DOES IT TYPICALLY TAKE TO OPEN AN INDIVIDUAL ACCOUNT?



Source: Appway

and, in some cases there is a requirement for specific review and approvals, senior management.

The upshot of too many touch points is excessive time, cost and overlap in effort. Plus, it can take away from what banks should be focused on doing – servicing clients.

This is further complicated by the fact there are, in many cases, too many manual processes.

This leads to gaps and heightened operational risk which, in turn, creates reputational risk if banks end up getting the wrong information or miss key data. Billion-dollar fines from regulators around the world are all-too-commonplace in today's world of scrutiny within wealth management.

The danger of doing things manually is that the approach is not homogeneous. Plus, it is too subjective, for example when it comes to identifying the source of wealth.

STREAMLINING NEEDED

Data management, therefore, is key for private banks in addressing their onboarding challenges.

Streamlining both the systems and operational protocols to capture the relevant information can help reduce confusion as well as any excessive time commitment for RMs, compliance and management.

This inevitably comes down to digitalising the processes – including digital signatures, information security, alignment of multiple systems across jurisdictions, and the specific forms required.

On this last point, it is not uncommon for an individual client to have to review and sign anywhere from 80 to 100 different forms during their onboarding.

All of this results in one thing: much more added cost. And this is becoming an increasingly significant burden on private banks of all sizes – both as a direct cost as well as an indirect one in terms of the time of all staff involved.

DRIVING CHANGE

Key to fostering change and digitalising onboarding is making the results and benefits more tangible – in terms of a new target operating model to create greater efficiency and lower costs.

This creates a justifiable business case by showing what the solution will bring to the institution.

A lot of this comes down to speed of execution of the onboarding process for each client.

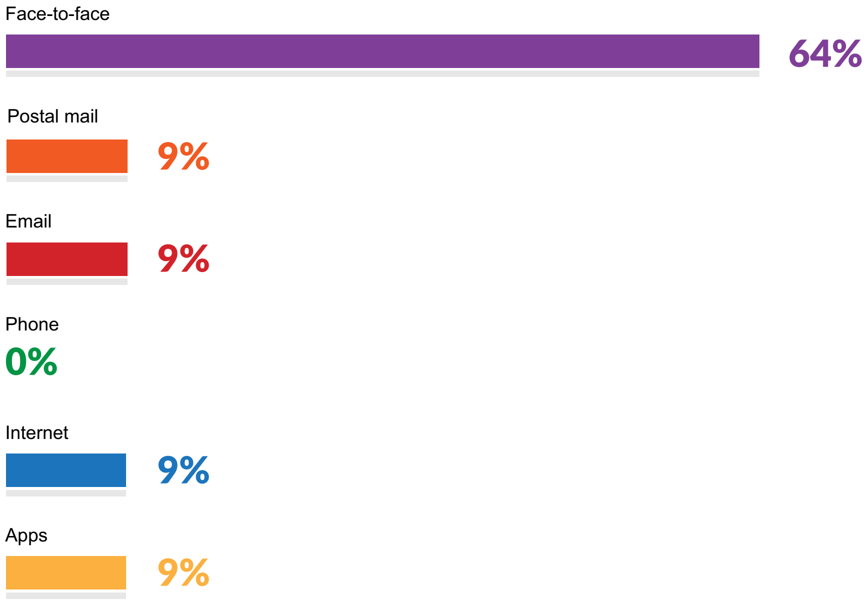
Work that Appway has done, for example, in Switzerland, has shown the potential to reduce the client onboarding timeframe from 10 days to two days.

Revenue generation opportunities are then able to be leveraged much more quickly by the bank's RMs.

This is also not done by overlooking any regulatory expectations or requirements; compromising compliance is not an option.

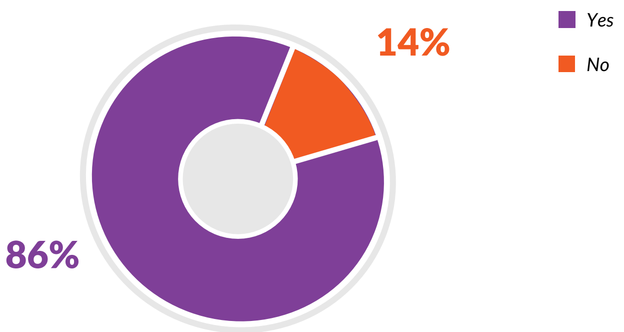
It also results in a much better client experience. By guiding the RM as well as the client with specific rules based on different scenarios, the bank's staff is better prepared for the client and can process all data more smoothly. ■

WHAT CHANNELS DO YOU USE FOR CLIENT ONBOARDING?



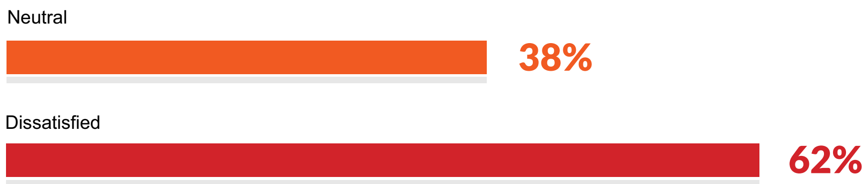
Source: Appway

DOES YOUR ONBOARDING PROCESS HANDLE MULTIPLE REGULATORY REGIMES?



Source: Appway

HOW SATISFIED ARE YOU WITH THE ONBOARDING PROCESS AT YOUR FIRM?



Source: Appway

Investing with a human touch

Guilherme Lima of HSBC asks whether portfolio managers and advisers will be completely replaced by algorithms and digital solutions.

Deciding on the right investment plan is never easy, even at the best of times. It is a process that requires assessing goals and carefully researching products to make sure these fit with both aspiration and risk appetite.

"Are investors better served by paying fund managers to make active investment decisions? Or should they rely more on cheaper passive products that replicate a market index?"

But living in complicated times forces investors to address a broader range of considerations when thinking about where to put their money. Research by the McKinsey Global Institute notes that over the next 20 years annual returns in traditional US/European asset classes could fall by 1.5% to 4%, compared with their average returns over the previous 30 years.

Some of the underlying factors that drove historical returns, including favourable demographics, productivity gains and exceptional margins for large multinational and listed companies, are not expected to prevail.

Also, in the short term, markets will continue to be volatile as various socio-political and economic events globally impact sentiment. "We expect continued market uncertainty leading to increased volatility even for 'safe' bond investments in 2017, which have seen significant inflows over the last months," explains Guilherme Lima, HSBC's global head of premier, and regional head of wealth management in Asia Pacific.

"At the same time, investors approaching retirement, or who are already in a decumulation phase, face substantial headwinds with still-low interest rates, despite potential interest rate hikes."

Another important aspect for investment decisions is reflected in the debate over the merits of active and passive asset management.

"Some are asking whether investors are better served by paying fund managers to make active investment decisions, or if they should rely more on cheaper passive products that replicate a market

index. However, the answer is more balanced: retail investors will continue to be better off by investing in a combination of active and passive investment products."

Assets managed by index tracking funds have grown in the US by USD2 trillion since 2013, accounting now for one-third of all mutual fund assets in the world's largest asset management market. ETFs, exchange traded index tracking funds, saw nearly a tenfold increase in AUM over the past decade to USD3.3 trillion globally.

DIGITAL INFLUENCE

Investment distribution is also changing. While it is too early to say exactly how fintechs will thrive, Lima believes the long-term trend is clear.

"Digital technology will structurally change retail investments," he predicts. So-called robo-advisers are attracting a lot of attention. As automated investment managers which use algorithms to determine how money is allocated after an initial online client evaluation, they mostly use passive instruments – and thus have a big appeal in terms of cost, transparency and simplicity.

"For the advocates of passive investing, robo-advisers are the latest step on a road that started with ETFs and ends with an investment process that could eliminate human intervention," explains Lima.

"In this context, will the future of the investment industry be driven by algorithms and digital solutions with little or no human component?"

ACTIVE-PASSIVE DEBATE

"Passive instruments work well for markets that are already highly efficient," he says. "In these markets it is more difficult for active managers to consistently outperform their benchmarks."

Research by S&P Global shows that 76% of US large-cap mutual fund managers underperformed the S&P 500 over a five-year horizon. This figure increases to 84% when the fees charged by these managers are taken into account.

In less efficient markets or asset classes, which exhibit lower liquidity and higher concentration, the argument for index trackers is less compelling, adds Lima.

capture an increasing share of the value," he adds.

As a result, he says a challenge for the industry is how to provide traditional retail investors access to these opportunities, as these are mostly illiquid and require a higher level of risk appetite. "Passive instruments are not an option, as these companies are not part of the traditional investment universe. For example, the average company in the MSCI World Small Cap Index already has a market cap of USD1.1 billion."

"For the advocates of passive investing, robo-advisers are the latest step on a road that started with ETFs and ends with an investment process that could eliminate human intervention."

"Some of these asset classes, including emerging markets, can offer attractive investment returns as well as diversification benefits to investors' portfolios."

The same research by S&P Global shows that managers investing in, for example, international small-cap equities fared better on average than their benchmarks, when measured using gross-of-fees returns. Over the coming years, exposure to small companies might become a critical factor in achieving long term returns, believes Lima.

"Technology is changing some of the underlying factors of global flows and competition and as a result professionals and small companies will

Investment through insurance seems to be a good alternative, he adds, as some of these products allow longer lock-in periods and exposure to illiquid asset classes.

ROBO VERSUS ADVISERS

When it comes to investment distribution, the significant attention and coverage drawn by robo-advisers can overexcite investors. "These solutions are indeed quite innovative but follow a standard asset allocation process and suggest a portfolio of ETFs for broad categories of client risk profiles and investment needs," says Lima.

In many cases, an investor looking to invest USD1,000 for one year will get

the same solution as someone looki
to invest USD1 million for five years

However, the challenge with robo-a
visers, he explains, is that clients ne
to be comfortable to fully delegate th
investment decisions for at least a pa
of their portfolio.

"For these clients, robo-advisers c
be excellent and innovative solutio
with one-click execution," he adds.

"Also, we believe that in many instar
es these solutions will complemei
not necessarily replace, the work
advisers and bankers."

In reality, there is a spectrum of client preferences for investment advice.

On the one hand, are investors who delegate all their investment choices into a single solution or discretionary portfolio. At the other end of the spectrum, are self-directed investors.

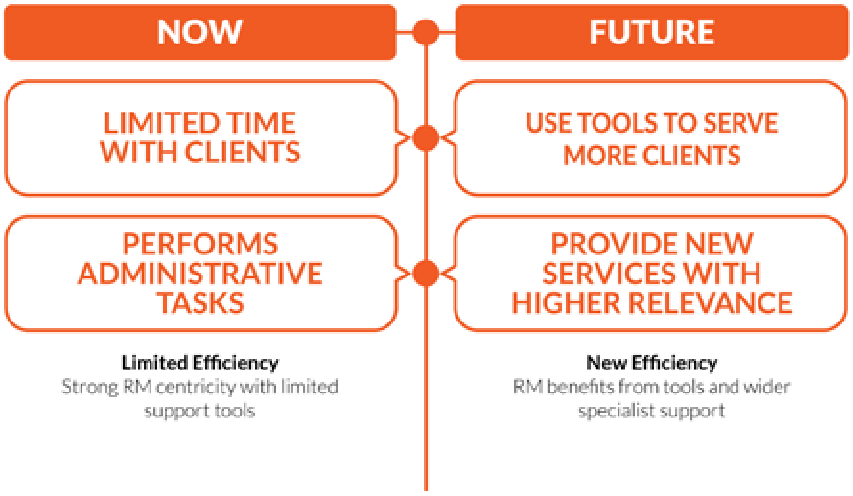
In the middle, are people who seek some advice but ultimately make their own investment decisions.

The 2015 BlackRock Global Investor Pulse Survey showed that 76% of mass affluent clients in Hong Kong, and 86% in China, enjoy managing their investments.

In line with this, they look to have some level of influence in how their money is invested.

"In our experience, those clients will want to exchange ideas and seek information from an adviser than solely through a website," says Lima, "even if those conversations happen over the phone or digital channels."

THE RM FUNCTION IS CHANGING



"Financial planning is not an objective science, and is at its best when the discovery and decision-making processes are enabled by human connection."

At the same time, Lima says one should not under-estimate the process of understanding client needs and defining financial goals.

"Most clients come to us without a clear view on why they are investing in the first place or what should be their priorities to achieve a better financial health," he explains.

For example, while most people want their families to be in a secure financial situation in case of an unforeseen event, he says that very few assess how much they need to cover the first six to 12 months of income replacement, or how to ensure education costs continue to get paid.

"Financial planning is not an objective science," adds Lima, "and is at its best when the discovery and decision-making processes are enabled by human connection."

From this perspective, he says it is clear that there is no one-size-fits-all approach when it comes to advising investors.

"Technology will undoubtedly continue to structurally change the business," he adds. "But it cannot replace the human element, as it is only through personal interaction that each individual's needs and aspirations can be truly understood." ■

Avaloq maps out Asian growth path

Peter Scott of Avaloq explains some of the firm's priorities in 2017 for growing the business in Asia, especially in terms of business process outsourcing (BPO).

Avaloq is undergoing a big transformation – from being only a software company to its role as a software and managed banking services organisation.

This has come off the back of some consolidation within the company in terms of the creation of a series of BPO centres – in Switzerland, Germany and Singapore – into what the firm calls the global processing network (GPN) of the Avaloq group.

More broadly, it is in the context of where the business is going and how it is going to evolve over time, says Peter Scott, general manager for Asia Pacific at Avaloq, and a member of the executive board.

"Increasingly, institutions will be looking for services that deliver software – either as a full-scale BPO, or in terms of Software as a Service (Saas)," he explains.

This is a trend he predicts will continue to develop and evolve over the next few years.

ASIAN OPPORTUNITY

Scott sees some major trends in Asia which are driving the firm's strategy in the region.

A key one of these is the increasing prominence of Chinese banking institutions, a growing number of which are developing in terms of their ambitions, capabilities and geographic reach.

What this means for the Hong Kong and Singapore markets, for instance, is Chinese banks looking to compete within the private banking and wealth management landscape, with various products, solutions and capabilities.

PETER SCOTT
Avaloq

There are even moves by these organisations in Europe, adds Scott. "This outflow of Chinese banks is similar to what happened historically with the US institutions going global," he says. As far as Avaloq is concerned, it believes it is well-positioned to support Chinese and other newcomers to the market from the BPO perspective.

This means helping them to get set up and become operational very quickly, all at a relatively low cost.

BPO POTENTIAL GROWING

Scott therefore believes that the firm is in the right place at the right time – and with the right solutions – when it comes to its BPO initiative.

This applies to the more traditional players too. "Many institutions, especially in the offshore market, are under pressure," he explains. "The concept of BPO combined with the readiness to accept these solutions is definitely growing."

Avaloq has seen this in Singapore and Hong Kong already, and also in markets like Australia.

This also highlights some of what Scott describes as a "seismic change" in the way many banks now operate.

Historically, he explains, these financial institutions have had large IT teams and extensive technical capacity in place to run their operations. But what is increasingly the case, he observes, is the potential for a disaggregation of functions and capabilities within banks.

"Economies of scale, which can be offered through cloud-based service delivery, will replace a lot of the more historically bank-owned infrastructure," says Scott.

"The Avaloq BPO services offering fits and is right-timed for this development in the market," he adds.

MEETING EXPECTATIONS

Amid the various changes taking place in the broader landscape, the client experience is a key driver in determining what is expected from firms like Avaloq today. As a result, digitisation is a strategic priority, in terms of the way this is impacting all products and services. For instance, rather than continuing to just be focused on the back-office, process efficiency and cost-income ratios, increasingly the goal is to "delight the client" through the end-user experience, especially via digital channels, says Scott.

This also includes providing front-line bankers and client advisers with more effective tools to be more efficient and productive. Avaloq is therefore investing accordingly. "The investment strategy of the firm in technology is very much aligned with this," says Scott.

For instance, the lion's share of the company's spend in recent years has been focused on those technologies which are forward-facing to the client, rather than on the back-office and operational sides of the business. ■

"The concept of BPO combined with the readiness to accept these solutions is definitely growing."

Leveraging solid growth

The Avaloq group reported organic top line growth, margin expansion and strong cash generation for the 2016 fiscal year.

Some of the highlights for the company as a whole during the year included six new customers joining the Avaloq Community, with 28 going-live projects completed. These included the migration of HSBC Private Bank, Crestone and Maybank Private Wealth to the Avaloq Banking Suite, as well as the implementation of new digital solutions for several existing customers.

In addition, the BPO centres in the EU (Berlin) and Asia (Singapore) went live, and the BPO centre in Switzerland (Lugano) became a full member of the Avaloq group. Integrated BPO solutions provided by Avaloq's three wholly-owned BPO centres now represent in excess of 60% of group revenues.

Meanwhile, the Avaloq Digital Suite, which provides digital banking solutions from the Avaloq Banking Suite for client channels, client management and advisory, was further extended and is now also available in SaaS mode for an even swifter adoption by both BPO and on-premise customers.

The firm also launched an open developer portal for freelancers, start-ups, fintechs and banks of all sizes to jointly innovate and enhance digital banking solutions and user experience.

Isn't it time to separate fintech fantasy from reality?

There are five key ways for banks to finally start taking a much more serious and strategic approach to robo-advisers and fintechs. This assumes they even want to foster genuine disruption within wealth management.

Despite the flurry of robo-advisers and other start-ups emerging across Asia in recent years, a much smaller dent has so far been made in traditional wealth management models than many people were predicting.

This isn't necessarily the fault of the fintechs themselves. In our view, understanding and then overcoming the issues boils down to five key ways which can create the opportunity for genuine game-changing disruption.

The upshot of this is that few, if any wealth management institutions, can claim to be fostering real change or pushing the boundaries – certainly not compared with what is being seen in other parts of the world.

Based on recent conversations with several of the largest fintechs and other relevant players in Asia, we believe banks need to focus urgently on putting in place these essential components of a sustainable fintech future. This is also based on the industry being at a time in its development when the regulatory and business challenges it faces have made enhancing profitability as well as the client experience more pressing than ever before.

So is this the year when banks will finally get off the fintech fence? Will they actually start buying robo-advisers, or at least ink them into their strategic blueprint?

They can no longer ignore the prospect of the Googles, Alibabas and other real potential disrupters of the world more formally entering the market sooner rather than later.

(This also reflects some of the views of the 160-plus individuals working within Asian wealth management who we separately surveyed in January 2017. More analysis of these findings will follow in other articles on the role of digital.)

1. ***Clarify mis-conceptions - a clearer understanding of what fintech actually is and can bring to the banks***
2. ***Ensure substance over style - a lack of strategic priority and conviction among business leaders***
3. ***Foster real change – a bigger effort to implement policies and processes to facilitate the role of fintechs within the business***
4. ***Bring in the right experience – put in place individuals (in robo-advisers) with the required qualities and knowledge in investment processes***
5. ***Benchmark the best – a need to take a closer look at some success stories in the US, to evolve the offering***

1. CLARIFYING MIS-CONCEPTIONS

A big issue which also creates a mismatch of expectations seems to be that, in all the excitement about the role and potential of fintechs, there is a lack of clarity within banks over what means in reality.

The definition of fintech is not well understood, and can often get mixed up with e-commerce. For instance, many people see digital as a front-end to sell products. Yet this misses the subtle but quite significant difference that digital can make.

Instead, business leaders within wealth management need to understand the various players in the ecosystem and how they interact with each other.

They also need to appreciate this is an evolution, not a revolution. Speed will be dictated by how many useful technologies can be integrated into business rather than a wholesale change of businesses.

Further, fintech is a collection of quite small firms offering single-issue resolutions to existing players. This creates a dynamic that is confusing and lacks any sort of direction or purposes. People develop 'stuff' in the hope it will be bought.

To be more relevant, the fintech activity needs to be defined more widely, to include new and existing firms as well as technology advances on management issues around business models, strategy, funding and governance.

This wider perspective creates a potential environment of change along multiple lines. Plus, it moves banks beyond simply scrambling for solutions or tweaking existing processes, and towards an approach which is part of a deeper strategy to fundamentally change the model.

2. ENSURING SUBSTANCE OVER STYLE

At the same time, banks also need to view themselves as essentially having the same objectives as a fintech; this makes it more likely they will develop a clearer approach to collaboration.

The challenge to date has been the self-interest prevalent within many banks. This, in turn, blocks the required mind-set to foster true disruption, speed up decision-making and drive new ways of doing business.

to tackle real problems facing customers and to leverage technology to drive business efficiency.

More recently, in January 2017, Aviva announced an agreement with Hillhouse Capital and Tencent Holdings to develop an insurance company in Hong Kong, which will focus on digital insurance. An important difference in how these (and other) insurers are engaging fintechs is by asking themselves more specific questions in relation to how they can break existing models.

This way of thinking has also led to them setting up research and development teams to think in a more independent way.

> **"Banks need to take the fintech conversation outside of the technology department and turn it into a business-led discussion."**

Some of the largest insurance companies provide useful examples of success in collaborating with fintechs and driving digital disruption. And several large-scale digitalisation projects which are now up-and-running are testament to this.

One example is LumenLab, MetLife's Singapore-based innovation centre, which launched Collab in late 2016.

This was a three-month programme to support product-ready start-ups as they tackle the business needs of tomorrow. A key goal was to create a marketplace for start-ups to meet, share ideas and build solutions – both

Such an approach is often lacking at the banks. Their vested interest (in most cases) in steering clear of real disruption leads to the adoption of technology which is focused only on enhancing what they already have, or automating more of the process.

A lot of the problem comes down to bank models on the whole being too tightly-focused on revenue. They don't align client and bank interests to support performance, and then share in the benefits of that performance.

Another big shortcoming within many institutions seems to be that executives have approached fintech incorrectly;

they have incubated technology to see what sticks. Yet such incubation has to be driven by strategic needs, not be what is technologically possible.

Without a strategic dimension in digitisation (for example the more purposeful and focused Aviva initiative), activity labeled as 'fintech' is focused on technology per se. It lacks the connection to the bank's business model. As a result, there is little, if any, change.

3. FOSTERING REAL CHANGE

Based on conversations with various fintechs, a lot more needs to be done at all levels to facilitate real change in wealth management.

The inaugural 'Singapore FinTech Festival' in November 2016, for example, was filled with promise and collaboration. The reality for many participants, has been a lack of tangible outcomes. This followed a similar story a bit earlier that month, at the inaugural 'Hong Kong Fintech Week'.

Anecdotal evidence also suggests that for a financial centre like Hong Kong to show it is serious about embracing fintechs in a structured way, then it needs to make it easier for fintechs to open corporate bank accounts.

More broadly, although the recent get-togethers create enquiries for fintechs, there is little proof of it leading to anything meaningful.

This also highlights the frustration and scepticism among a growing number of fintechs in relation to the wave of accelerator programmes and hackathons – and even 'Hackcelerators' – at various banks in Singapore and Hong Kong. These have become mainly about start-ups presenting to the banks with pitch-books and concepts. Even some of the winners of these schemes get disappointed, for example when they get subjected to out-of-date, box-ticking vendor onboarding procedures.

Part of the problem is misguided logic. Many banks should want to mentor these types of companies to learn more about their processes, including design thinking and how they create prototypes.

Yet the banks don't appear to be spending anywhere near enough time seeking out innovators who are looking at introducing new investment philosophies.

This has an effect of dampening the enthusiasm of some of the more pioneering fintechs in this space.

The lack of tangible business or even viable opportunities puts them off participating in certain initiatives in the first place.

Instead, the fintech-focused events need senior people from the banks who are the actual decision-makers, rather than just other start-ups talking to each other.

Further, banks need to take the fintech conversation outside of the technology department and turn it into a business-led discussion.

Only then will it become possible to find solutions which can cause real disruption, drive efficiency and redefine the client experience.

4. BRINGING IN THE RIGHT EXPERIENCE

One of the pitfalls of developing fintechs which are likely to succeed stems from the disproportionate number of participants of accelerators and hackathons being technology experts and programmers. They are focused on glossy front-ends; what they lack are investment skills and understanding required to make a difference to how clients will interact with the bank via investment solutions that add real value.

This means fintechs try to market projects and solve problems which aren't really there in the first place – meaning that they don't tend to get anywhere. Yet this must also be weighed against the defensive approach of the banks.

There is an expectation among some market practitioners that the second-

Starting on the fintech path

To cut through the noise and know which fintechs to pay more attention to and align with, banks need the right a filter help to determine which firms are likely to have a more sustainable business model to gain more traction.

So when devising a fintech strategy, senior management should perform a 'fintech assessment' before taking any further steps.

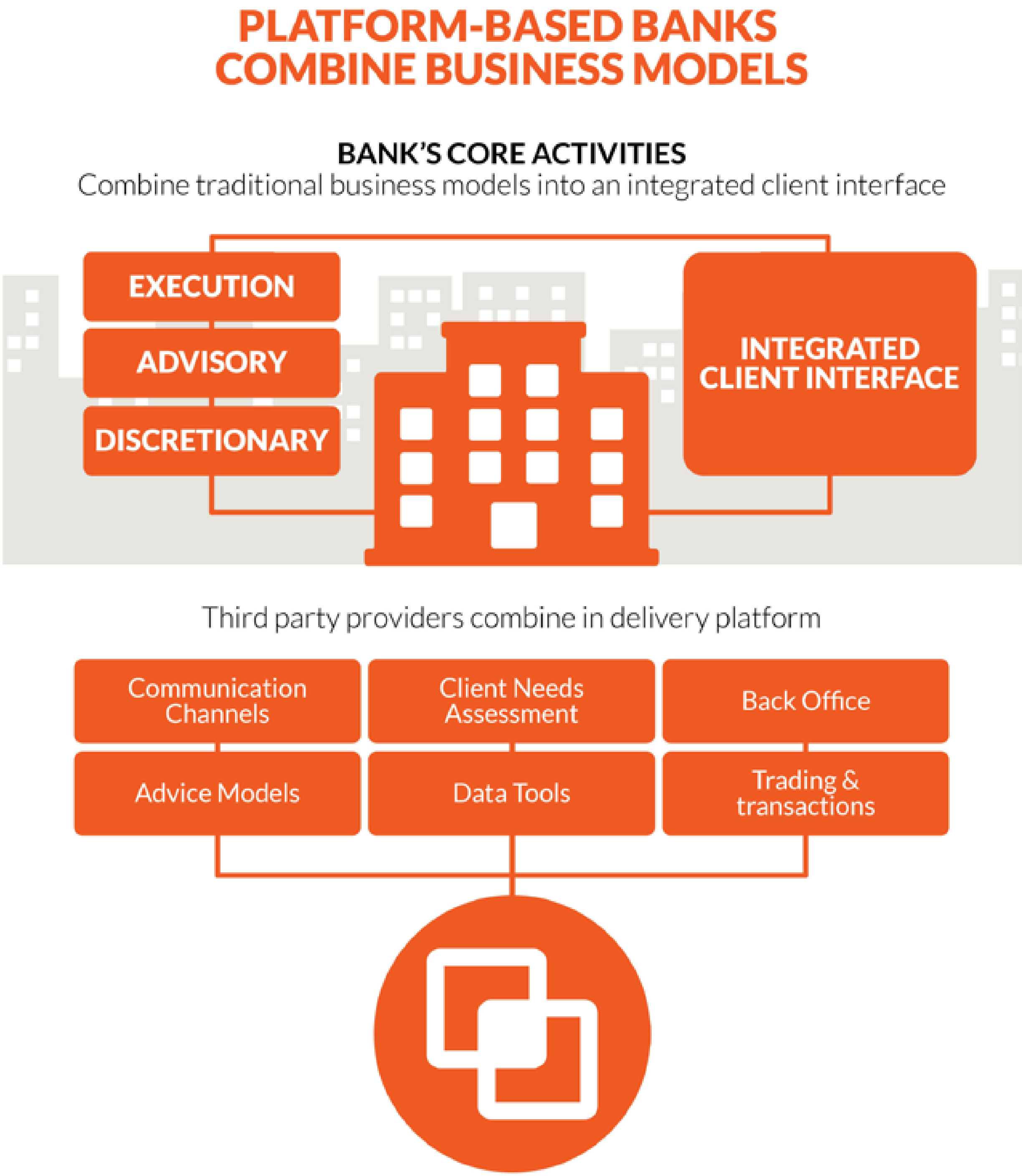
This first step involves l ooking at what is out there already, and at what other leading-edge businesses are doing in this domain.

This stage needs to happen before anything else – before the bank comes up with any of its own ideas, talks to vendors, or has internal teams draw up project plans.

generation of robo-advisers in Asia will be more successful with the wealth spectrum – rather than just being retail-focused and one-dimensional in terms of offering a single product like ETFs.

In line with this, the digitisation of the investment process is predicted to make one of the most profound differences. Indeed, getting multi-product, professional-grade investment advice is essential to ensure relevance. And this is only realistic when experienced investment professionals and asset managers are involved – specifically, people who have designed investment processes to combine their knowledge with technology.

At the same time, it is key to ensure more transparency and 24/7 monitoring. From a suitability and regulatory perspective, the offering then becomes more helpful.



If left to people who are very clever but lack distinct experience about investing, robo-advisers won't develop fast.

The right influence, however, will ensure that the tools and solutions will be rooted in a robust investment process with a sound philosophy which introduces new methods of portfolio construction, as well as the ability to focus on specific investment outcomes.

A key aspect to meaningful offerings is risk profiling. There is an important need for robo-advisers to evolve from just following the industry-wide, box-ticking approach of asking only basic questions; this just puts clients into one of a limited number of buckets based on their level of wealth or education.

Firms must make much greater use of big data to improve the risk profiling, plus do it more regularly. They can then create a more accurate and dynamic risk profile to reflect real views and incorporate changes. The upshot is tailored portfolios in a scalable way.

5. BENCHMARKING THE BEST

What banks in the Asian time-zone say in comparison to what they do makes the list of true game-changing initiatives involving fintechs few and far between in Asia.

Indeed, it is the US that most players in Asia should look to.

For example JPMorgan Chase has tied up with OnDeck Capital, one of the biggest of the specialist online lenders.

This is a genuine blurring of the boundaries between the old and new worlds of finance.

In the words of Jenn Piepszak, chief executive for business banking at Chase, in an interview with the Financial Times at the time of the deal: "It is not a question of friend or foe. We clearly bring scale and customer acquisition to the table; what they offer is a disruptive customer experience that is very complementary with our existing services."

"If left to people who are clever but lack distinct investing experience robo-advisers won't develop fast."

Meanwhile, Goldman Sachs, a traditionally institutionally-focused Wall Street bank, made a USD15 million investment in Kensho, a company looking to shake-up the financial data industry by giving the masses the type of complex, quantitative computer power currently used by the top hedge funds.

Then there are some specific firms to look at, which are front-runners in the robo-adviser market globally, such as Betterment and Wealthfront.

Yet innovation is clearly not absent in Asia. Banks like DBS have been strong proponents of digitisation with disruption in mind.

And other institutions across the region have made somewhat of a splash in some areas. For example, China's Ping An Bank has developed entire value-chains around travel, home and commerce. Siam Commercial Bank has invested in Ripple, a world leader in blockchain technology, making it the first Thai player to explore and pilot-test the future of cross-border payment platforms. And Kasikornbank has worked with Beacon Interface to offer a mobile banking app for the visually impaired.

IN NEED OF CHANGE

Certainly a potential scenario for Asia which some industry participants expect to see in 2017 is robo-advisers linking up with smaller private banks and IFAs.

Akin to products like electric cars, institutions will likely make the switch when the offer is cheaper and they are good enough.

Yet creating a much more sophisticated offering also raises a question about whether they will remain cheap enough.

Moving beyond simple products towards a more thematic and diversified range of investment solutions will bring with it greater costs of using robo-advisers.

At its most extreme, fintechs won't disrupt financial services. Banks themselves are the most likely people to kill-off banks, for example, by over-extending themselves, buy toxic assets, or giving loans to the wrong people or businesses.

The doomsday clock for wealth managers will start ticking when the Googles of the world – with their billions of investment dollars, bright minds and great brands – start to acquire smart fintechs in a meaningful way. ■

Guiding PRC clients through a wealth planning maze

Geoff Cook of Jersey Finance explains the emerging needs of wealthy Chinese, given the need for them to consider the PRC tax landscape coupled with the fast-changing global regulatory environment.

As the China market continues to open up, mainland HNW and UHNW clients are becoming more sophisticated and attuned with their wealth-related needs – both at home and abroad.

Overseas investments are a way for them to achieve more diversified and potentially higher returns, for instance, through access to a wider selection of products and services.

Clearly, this shift in mind-set presents opportunities for wealth managers and professional services firms alike. Yet Geoff Cook, chief executive officer of Jersey Finance, believes it creates challenges that need addressing too. "There is a general lack of diversification of assets and limited client knowledge when it comes to managing risks and available solutions, such as investment in unfamiliar markets and understanding the implications of inheritance taxes in mature markets," he explains. For example, while Chinese clients like the idea of setting up trusts, he says many don't really understand that this involves the transfer of control to a trustee.

The fact they prefer to take a predominantly active role in their own investments and asset management is, arguably, at odds with the use of such a vehicle.

A HELPING HAND

Since awareness around trust structuring and the international transparency agenda more broadly is still at a relatively early stage among PRC clients, Cook believes that specialist international finance centres (IFCs) can play an important role in helping investors understand their regulatory requirements. IFCs like Jersey Finance can also enable these clients to fulfil their needs in terms of cross-border wealth, estate planning, investment and family offices.

"There has been a noticeable change in the attitude of the Chinese HNW and UHNW clients in recent years towards trusts, both for wealth and succession planning," explains Cook. "But there is still a fair amount of educational work that needs to be done in this area." ■

GEOFF COOK
Jersey Finance

Bringing a wealth structuring mind-set to the Philippines

A gathering of 15 business leaders from the country's wealth management sector – co-hosted by Peter Golovsky of Amicorp, Martin Wong of JLT and Hubbis – highlights why a sharper focus and more structured approach is essential, to drive needs-based conversations with clients in order to deliver much-needed succession, tax and insurance planning solutions.

The Philippines, similar to many countries across Asia, continues to experience rapid growth in the number of wealthy individuals and families.

What comes with this, however, are a wider and more complex set of needs in managing their business and personal assets – both for today and in the long-term. As a result, the scope for more comprehensive planning, support and education is clear.

Many clients are increasingly aware of the dynamics and challenges they face. Plus, the focus on transparency at local, regional and global levels in relation to tax and other affairs has left them with little doubt about the need to do something quickly in order to plan for the future.

For wealth managers and third-party professional services firms, too, there is a clear need to work with new and existing clients to help tackle the issues now confronting them.

And as more wealth either stays onshore in the Philippines or gradually finds its way back home, facilitating a smooth wealth transfer to the next generation is becoming more pressing.

This all assumes that there can be further clarity around the regulatory environment, including the agenda and timeframe for the Common Reporting Standard (CRS) in particular. And also that the individual bankers have access to – and embrace – the required training and education in the tools and understanding of the issues in play.

Without these two components, the ability for wealth managers to have the types of needs-based conversations required, to advise and guide clients in the right direction, remains limited.

These were among the key take-aways from a recent roundtable in Manila, co-hosted by Hubbis along with Peter Golovsky, managing director and global head of institutional sales at Amicorp Group, and Martin Wong, chief execu-

PETER GOLOVSKY
Amicorp Group

tive officer, private client services at Jardine Lloyd Thompson PCS (JLT).

The discussion involved 15 business leaders from banks with platforms serving HNW clients and professional services firms in the Philippines.

IN NEED OF SOLUTIONS

The drivers for wealth planning in the country are changing. There is a shift in the understanding and acceptance among industry practitioners as well as end-clients from tax minimisation to tax planning.

The expected tax reforms on the agenda in the shape of CRS make this unavoidable. With or without a tax amnesty of the type which Indonesia implemented in 2016, for example, there is no escaping the need for proper planning, says Golovsky at Amicorp.

Clients need to understand, for example, that estate planning is way beyond a simple will or having a family holding company, he explains.

For the time being, the use of a trust, both locally and offshore, is very limited among Filipino clients. Most of them, say practitioners, don't really appreciate the use of a trust for the purposes of protection and inter-generational planning; their appreciation of this tool is more for investments, as an asset allocation vehicle.

The more forward-looking institutions in the Philippines realise these shortcomings, as they do the inevitability of change via initiatives like CRS.

They know this will start to apply sooner rather than later, so need to be able to start the process of getting prepared, according to Dicky Fong, head of institutional sales for Amicorp in North Asia.

There are already implications for Filipino families that might have US connections, given existing regulations like FATCA. "These clients need to be made aware of the options available, such as foreign grantor trusts, US domestic trusts, and others," explains Fong.

For banks and other service providers, therefore, key to them becoming a more relevant and embedded part of their client's lives is the way they can differentiate their offerings and, in turn, win new clients.

The types of solutions they can bring to market will be a key determinant of this. There is a need, for example, for proper planning around asset protection and succession issues.

At the same time, solutions for clients in the Philippines need to be developed that straddle both onshore and offshore, particularly given the likely changes in the regulatory and tax environments.

Further, solutions need to transparent, priced appropriately, and complemented by careful communication to clients about their purpose, relevance and value. This all relies on the right education, too, of bankers and clients alike.

In short, it comes down to early planning and the development of suitable solutions tailored to the needs of the local market, adds Golovsky.

GROWING ROLE FOR INSURANCE

The use of insurance combined with trusts is expected to be more important going forward in the Philippines.

This mirrors an important trend across Asia more broadly. The strong wealth creation around the region has led many wealth planning and insurance specialist to estimate that universal life (UL) policies – jumbo life insurance plans for HNW and UHNW clients – will continue to generate double-digit growth per annum in the coming years., says Wong at JLT.

This is alongside the potential for much greater take-up of other legacy and estate planning instruments to facilitate wealth transfer to the next generation.

Further, a survey by Transamerica Life (Bermuda) Ltd and Asian Private Banker in 2016 found that only 5% to 10% of private bank clients have purchased UL policies. Over the next 24 months, according to the findings, 56% of private bankers expect UL policies to show the fastest increase in popularity compared with other life insurance products.

Younger HNW clients, aged 31 to 50, were also found to be more inclined to

MARTIN WONG
Jardine Lloyd Thompson PCS

purchase UL than those who are older than 51 – as well as view these policies as a way to create wealth and also a financial planning tool.

CLIENT EDUCATION ESSENTIAL

Meanwhile, the current knowledge among clients about protecting themselves and transferring wealth is quite diverse, according to practitioners.

At the more sophisticated end of the spectrum are those (relatively few) individuals who believe they understand the issues and what's required, and can do it themselves without the help of professionals. Yet even they are now starting to realise this is unrealistic.

In line with this, the use of tools such as insurance to help them protect their wealth is becoming a bit more widespread in the Philippines. Although insurance has typically been a bit taboo, regarded as a morbid topic that gets sold based on fearmongering, there are ways that wealth managers are increasingly finding to introduce certain products and solutions – and which don't always involve the client having to die to benefit from it. Yet this approach, as with any conversation with clients about their wealth structuring needs, requires a more proactive banker.

Given that the typical Filipino family consolidates most of their wealth with the decision maker, and aims to resolve questions about distribution of this wealth if something happens to one of the members of the family, their adviser can play more of an active role. This means driving the discussion and introducing tools to prevent disputes after the death of the patriarch or matriarch.

Industry leaders believe there needs to be a lot more effort to introduce such subjects as part of high school education in the Philippines. Their rationale is that by planting the right seed and framing the mind-set at this stage of someone's life will make them better prepared for the eventualities down the line.

CAPACITY BUILDING

Until there is a more formal and consistent effort to educate individuals, however, the current backdrop has led to financial institutions putting the need to increase their capability and capacity around wealth planning and structuring solutions as a priority.

The common scenario in conversations today between bankers and wealthy individuals is a focus on certain products – often investment-oriented. On the other hand, there might be discussions between clients and insurance agents or bancassurance personnel – which are solely about insurance products. The challenge in both cases, is that the institution won't know the whole picture of the client's assets or portfolio. Yet the role of a relationship manager needs to change, urge industry leaders.

No longer can they be one-dimensional; instead, they need to understand the dynamics of the family and the various

Offshore no more an advantage

CRS, in conjunction with other regulatory changes on the disclosure of financial information – plus some more which might come in the future – has resulted in little difference between wealthy Filipinos holding assets onshore or offshore; either way, they will be subject to a declaration of funds.

Industry leaders see a lot of potential onshore, given the fact that the Philippines represents a highly-untapped market. Further, many practitioners believe that what is invested offshore is really just excess money, yet onshore is where the clients have their businesses and where they build their wealth.

As a result, there is an urgency around advisers working with professional services firms to find the right structures for clients in anticipation of the imminent declaration of assets. Practitioners say that some clients are already clamouring for a structure to go into.

Yet it is important to also consider that onshore and offshore asset structuring may have different tax implications for Filipinos with beneficiaries residing at home or overseas (such as in the US).

DICKY FONG
Amicorp Group

assets, to be able to hand-hold the client through the available products and how they can be applied for their specific situations. With this in place, they have a chance to provide the right solutions, whether product comes from their institution or is sourced elsewhere.

As a step in the right direction – albeit limited to date – the family office concept is also gradually being more widely talked about in the Philippines.

Starting with a discussion involving an adviser and family members, this can uncover the extent of their portfolios, including companies and real estate, for instance. Then the conversation can evolve to more holistic topic like their goals and issues, as a pre-cursor to identifying estate and succession planning needs.

To complement this type of approach, some institutions say they are increasing the availability of tools for their advisers or account officers, so that they can more effectively engage the client at the different phases of their lifecycle. For example, although this commonly begins with investments, after winning their trust, it can quickly develop and broaden into all sorts of needs-based products.

WORKING TOGETHER

What's missing in achieving all this is the training that many bankers in the Philippines need to develop the required skills and knowledge.

Some of this can be addressed, it seems, by partnering with providers to educate the wealth managers as well as clients, says Golovsky.

"Partnership interaction is a key focus for us and an important part of our overall value proposition," adds Wong. "Together with all market participants, we see many opportunities ahead in helping clients achieve their liquidity planning and wealth protection aspirations."

Indeed, collaboration is one avenue for some financial institutions in addressing the needs of the local market.

This also highlights the need for teamwork when it comes to finding successful estate planning solutions for clients,

The traditional problem in the Philippines, for instance, in getting clients to focus on their broader needs, has stemmed from the close relationship the adviser has had with the customer directly.

However, the evolution of the role into one which is more about support will lead to a better outcome overall for the client. ■

Reshaping the future of fiduciary services

With so much wealth creation in the region, including in the Philippines, there is growing interest in instruments to facilitate wealth transfer to the next generation. This is also a trend reflected in two recent pieces of thought-leadership: a 'Future of Trust' report, by Amicorp and Scorpio Partnership; and a White Paper, titled 'Shaping the Future of Fiduciary Services in Global Wealth Management', by Amicorp and Hubbis.

The research by Amicorp and Scorpio showed roughly 475,000 trust structures worldwide – but only 5% of the global HNW population have a fiduciary structure, suggesting significant upside, especially within Asia Pacific.

This was then further validated by 90 industry leaders across local and international wealth management institutions and advisory firms, at 9 roundtable discussions – hosted by Amicorp and Hubbis in Hong Kong, Singapore, Miami, New York, Mumbai, Zurich, London, Sao Paulo and Dubai in 2015 and early 2016. With mounting uncertainty over the strategic positioning of their fiduciary services businesses within their broader wealth management offering, it ultimately comes down to what's core versus what isn't.

"Many banks around the world are at tipping point in their decision-making around whether to remain in the business of wealth structuring," adds Golovsky.

Read more on this research via this link

Why the BVI remains well-positioned to attract Asia's wealthy

Dr D Orlando Smith OBE, Premier and Minister of Finance of The British Virgin Islands (BVI), explains why the jurisdiction remains a leading international finance centre.

Investor confidence within the international community is key to the future of international finance centres such as the BVI. And Premier Dr D Orlando Smith is clear in his view that the role such centres play will continue to be essential to the success and growth of the financial services industry on a global basis.

"Centres such as the BVI play a critical role in facilitating international business and cross-border investment within a well-regulated, transparent and neutral environment. The jurisdiction provides access to market leading expertise and products. It is trusted by international businesses and tailored to meet their needs," says Smith.

"We acknowledge the need that many BVI clients have for security and privacy and respect this," he adds. "The debate on beneficial ownership and our part within that is a clear demonstration of our approach. We have stated explicitly that we do not believe that public registers of beneficial ownership are either useful or effective and, as a result, have repeatedly said that we do not support their introduction."

"We have stated explicitly that we do not believe that public registers of beneficial ownership are either useful or effective."

DR D ORLANDO SMITH OBE
The British Virgin Islands

As a result, information about owners of companies in the BVI will not be made available to the general public.

ROBUST REGIME

The territory has always been proud of its regulatory regime. And Smith is keen to reinforce this view.

"Our belief is that our own systems are strong," he explains.

At the same time, he recognises that new international standards are likely to emerge with an emphasis on greater information-sharing between relevant competent authorities such as law enforcement.

"We believe that the BVI's proposal for a workable solution for global standards for beneficial ownership balances the need for both appropriate levels of privacy and transparency," says Smith.

"It is focused on three key pillars: data security, appropriate legal constraints and the principle that any new standard must be applied globally to ensure a level playing field," he adds.

The BVI recently unveiled its new innovative technology platform, BOSSs (Beneficial Ownership Secure Search System), which will allow the BVI to share information with UK law enforcement agencies within 24 hours.

The protocols for the use of BOSSs will ensure that BVI competent authorities will only perform beneficial ownership information searches following a legitimate request from UK law enforcement.

"BOSSs is the latest step by the BVI to ensure we remain one of the pre-eminent jurisdictions for company incorporation, and continue to have a best in class regime for beneficial ownership," says Smith.

LOOKING PAST THE 'PANAMA PAPERS'

Smith also wants the international community to look beyond the perception which has emerged in the wake of the so-called 'Panama Papers'.

"The BVI operates in a legal and transparent manner and is compliant with all relevant international standards," he explains.

"Pre-conceptions, particularly among journalists, die hard. While this period did present some challenges for the BVI, it also poses broader questions about the way the global financial system operates.

As a leading player in the various organisations that develop standards, the BVI is well placed to assess what might be coming down the road," he adds.

"Importantly, we are committed to actively supporting the development of a global regulatory framework fit for purpose, which is why we are currently engaging with the OECD, the international standard setter, as well as the European Commission."

Yet Smith acknowledges that the issues raised by the Panama Papers incident will be addressed by global regulators.

"As we have shown with our development of BOSSs, the exchange of beneficial ownership information is one area where the BVI has taken global leadership," explains Smith.

"We believe that the BVI corporate structures are still the most effective vehicle for much investment and it is our responsibility to ensure that they are utilised within the law while at the same time respecting the privacy of those they belong to," he adds.

> **"We are working tirelessly to evolve our services, diversify our expertise and products to deliver benefits globally, and ensure that we remain best in class."**

Looking ahead, Smith is positive.

"The BVI prides itself on being a centre of excellence for global business and we are working tirelessly to evolve our services, diversify our expertise and products to deliver benefits globally, and ensure that we remain best in class," he says. ■

What wealthy families want from their advisers

In today's complex and uncertain regulatory and investment climate, the changing needs of wealthy families demand advisers who can respond quickly and with relevant guidance.

As global initiatives such as the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI) force more transparency, wealthy families are increasingly looking for holistic advice. This goes way beyond opinion and guidance on regulatory issues; it means coming at it from the family and ownership perspectives.

As a result, advisers who are able to cater to the needs of different generations, while also keeping in mind the harmony of the family as well as the growth of the business, are best suited to serve clients today.

This is according to make leading practitioners from multi-family offices in Hong Kong and Singapore, based on a recent Hubbis survey.

HOW TO ADD VALUE

Wealthy individuals and families invariably have cross-border interests. These might range from assets in different countries and multiple tax residences, to children living abroad and business interests in several countries.

These clients are therefore looking for advisers who can do much more than just asset management. They expect their wealth managers to be familiar with the regulatory frameworks of the jurisdictions within which these families live and operate – in order to piece multiple matters together to come up with solutions.

Further, clients often need to look for advisers outside their home country. This might be for confidentiality reasons or, in the case of emerging markets, to get access to more expertise or experience.

A key thing that wealth managers can also provide to their clients, according to practitioners, are real solutions through direct expertise, or via access to best-in-class specialists such as trustees, lawyers, insurers, property agents, and others.

"Advisers who are able to cater to the needs of different generations, while also keeping in mind the harmony of the family as well as the growth of the business, are best suited to serve clients today."

Meanwhile, managing the overall risk is of utmost importance for clients. They are also looking for advisers who can see the whole picture and consolidate assets and asset allocation.

However, the biggest added value is when an adviser can assess the emotional value of a client's wealth.

This is often the only way to gain the real trust of the client, according to several practitioners.

ADVISER SELECTION

When trying to find the right match, wealthy families seem to believe most in word of mouth.

They typically select advisers based on long-term and tested relationships, often coming from strong referrals from close friends and family.

This is in addition to them seeking proven competency and experience in the area of the desired service. Yet it usually takes about one to two years for the trust to build between an external adviser and a family.

One way for advisers to achieve this trust, say several practitioners, is to avoid focusing exclusively on products, and instead to provide a truly independent view on the options available to the client.

THE RIGHT PROFILE

Those wealth management firms which are considered to be the most successful in delivering on what wealthy families want, tend to be those with the most extensive and effective multi-jurisdictional reach; as a result, they are more likely to be able to find solutions in more complicated legal environments overseas.

It is key for these firms to establish long-standing relationships that span multiple generations with their clients.

This not only helps in building trust, but also aligns values and interests.

As a rule-of-thumb, wealth management firms and multi-family offices need to be of a certain size to cater to client needs. And the main difference between newly set-up firms versus more established ones is critical mass – to be able to leverage with banks and to have access to the right managers on good terms, say the more experienced practitioners.

From an investment perspective, it seems that many wealthy families are becoming disillusioned with public markets. Hence, they are looking for more uncorrelated investments and private market exposure.

But what continues to remain critical for these clients, is their attachment to their wealth – and therefore capital preservation. They are therefore in need of advisers who can look beyond prioritising asset gathering and profit making. Instead they want advisers who can make a difference in how their wealth can be managed.

This might often require the advisory firms to sub-contract functions, rather than attempt do everything in-house; the cost of such a set-up may not justify the effectiveness to serve the clients' needs.

For example, outsourcing functions like a CIO Office to independent advisers or specialist managers often provides a fresh perspective, and can be invaluable in helping to diversify risk.

DIGITISATION OF SERVICES

Aside from the hype about the role of digitisation within wealth management, practitioners say that those advisers whose practices are deeply integrated with technology are inevitably more efficient and can reach a larger number of clients.

However, there is some scepticism.

For instance, while financial activities such as record-keeping and number-crunching can be simplified using technology, the ability to really help in making investment decisions through artificial intelligence or algorithmic tools is still yet to be proven in a consistent way.

Ultimately, to service clients' needs most effectively, practitioners say that it is essential to deploy a mix of technology, personal financial management apps and rules-based financial planning that presents an overall picture to the client of all their assets, liabilities and spending. ■

"Many wealthy families are becoming disillusioned with public markets. Hence, they are looking for more uncorrelated investments and private market exposure."

How to capitalise on the internationalisation of PRC wealth

The last five years have seen explosive growth in understanding among Chinese HNW individuals of wealth structuring and transition. But advisers and professional services firms need to know how to navigate a tricky compliance and cultural landscape.

Broadly, helping Chinese HNW clients to diversify, protect and pass on their wealth is no different in concept than it is for their peers in other countries.

For example, they face similar succession issues as individuals from many other countries. So standard asset protection structures such as companies, trusts and private trust companies are equally relevant.

More specific to China, there is a drive by wealthy individuals and families for globalisation of their wealth as well as their families.

The challenge, however, is the time it takes to get Chinese clients comfortable with the concept of a trust and the responsibilities involved, as well as what it means to cede control of their assets.

As a result, the starting point is to understand their needs and then help them get familiar with the risks of doing nothing.

However, there are two key peculiarities with China. First, many HNW individuals in the mainland are younger than in other countries, so might not have the same urgency to plan for a generational shift.

Secondly, they can't invest easily in their own country due to lack of products, so a challenge exists in getting the funds out of the PRC.

As a result, any structuring is therefore offshore, where these clients can use common structures such as trusts and offshore companies.

However, as with all HNW clients, they have to be made to understand that wealth preservation isn't just about investing assets – but also can be a part of developing a succession plan and getting the next generation involved.

Ultimately, advisers need to think long term when helping wealthy Chinese address the various challenges they face.

Panel speakers

- ***Lennard Yong**, Regional Chief Executive Officer, Asia, FTLife Insurance*
- ***Michael Olesnicky**, Partner, Senior Advisor, KPMG*
- ***Kevin Lee**, Partner, Zhong Lun Law Firm*
- ***Nigel Rivers**, Founder and Chief Executive Officer, Capital Solutions*
- ***William Probert**, Senior Consultant, Sovereign Trust*

Lennard Yong, FTLife Insurance

STAYING OUT OF THE SPOTLIGHT

With a country that has become increasingly 'clean', advisers need to be aware of the risks involved with trying to be aggressive in building up their client book without going to jail.

A relatively recent clampdown by PRC authorities has also made it more of a struggle for clients to get money out of the mainland.

Although this might be short term and potentially just a reaction to concerns about the huge capital outflows, there is clearly more of a spotlight on individuals who have not done things properly in the past.

And the view that China is generally a non-compliant jurisdiction is increasingly the wrong one to listen to, given the changing situation.

What stance the authorities will take going forward is anybody's guess. Practitioners are in the dark about whether changes will be made to any rules on the structures allowed to date.

Either way, some key guidelines that experienced market practitioners say they follow include:

- Avoid helping clients smuggle money out of China
- Assume even the most confidential structures are available for inspection by tax authorities
- If clients aren't tax compliant, watch out. Tax authorities in other countries have required disclosure of offshore advisers, and have prosecuted them
- Tax should not drive structuring decisions
- Don't make the client's problem your problem
- Focus on wealth that is either already outside of China or is about to be deployed outside of China
- Deal with clients from licenced offices outside of China

Michael Olesnicky, KPMG

WORKABLE SOLUTIONS

What is considered to be the right advice in China is, therefore, a changing concept.

While tax planning is relatively straightforward at the moment, this is likely to change. The Common Reporting Standard (CRS) and other reporting, as well as increased restrictions on capital flows, and reforms to immigration programmes and property ownership taxation rules (such as in the UK and Australia), result in a need to adapt.

Kevin Lee, Zhong Lun Law Firm

Some practitioners say they are also seeing a certain push-back in some jurisdictions against the influx and influence of wealthy Chinese people and businesses. This might even be based on unwritten policies rather than any public statement

Nigel Rivers, Capital Solutions

More specifically, in trying to find structures which can meet the needs of wealthy Chinese, care must be taken that the offshore entities are nor controlled by the client from within China; otherwise they will be subject to PRC tax.

Further, advisers and clients must be mindful of tax changes coming to Individual Income Tax laws, and possible estate duty in the PRC. The initial impact of this is simply that it will require existing structures to be reviewed.

In addition, the PRC tax authorities are sophisticated, so nobody should assume that non-compliance will be tolerated.

At the same time, CRS will give the PRC tax authorities information about the offshore structures. This will likely mean that offshore structures could be investigated, and those that don't comply may give rise to penalties.

Some practitioners expect that the State Administration of Taxation of the PRC will pass information about offshore assets to the State Administration of Foreign Exchange (SAFE), which will investigate to see if foreign exchange rules have been breached.

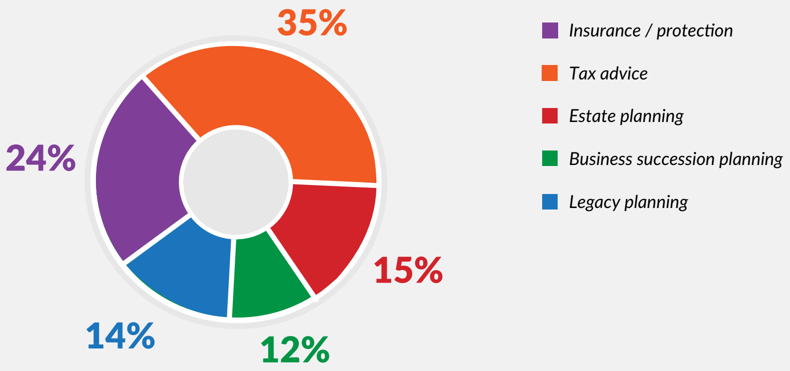
This suggests, say some industry insiders, that a voluntary disclosure programme beforehand could be tactical.

Whether China offers a tax amnesty is unknown, but some lobbying is underway.

Fundamentally, advisers need to do things properly. They must follow good practices in terms of reviewing the situation from time to time – and especially when there are any regulatory reforms.

Other ways to help Chinese HNW and UHNW clients diversify, protect and pass on their wealth include immigration as hedge against country risk and protection, in terms of segregation of wealth to put out of harm's way – notably, the '4Ds" of death, divorce, disaster and debt.

WHICH OF THE FOLLOWING IS MOST CRITICAL FOR CHINESE HNW CLIENTS TODAY?



Source: Hubbis Asian Wealth Management Forum 2017 - Hong Kong

LOOKING TO THE FUTURE

To find and access PRC clients, some practitioners suggest that advisers should aim for the next generation.

This is based on them tending to be more open and understanding of the need to do things, mainly because they have more of a Western influence due to their education.

In line with this, playing a role of an 'introducer' and providing independent professional advice or trustee services counts with this type of client. Indeed, network referrals are effective access points.

Further, family offices are maturing and in the process of evolving to suit PRC families

Ultimately, wealth managers need to build a certain amount of client dependency in China while they have the chance, say practitioners. ■

Advisers need to do things properly. They must follow good practices in terms of reviewing the situation from time to time – and especially when there are any regulatory reforms.

William Probert, Sovereign Trust

A new way to generate revenue from investment portfolios

To improve long-term performance, client advisers should avoid the temptation to continually promote new investment ideas to their clients all the time. Instead, they need to take a much closer look at what already exists in portfolios.

Is Asia's private banking industry, the tendency among most advisers is to spend the majority of their time showcasing new ideas to clients. As a result, they neglect to monitor what already exists in portfolios.

This was a hot topic of discussion at two industry thought-leadership sessions held in Hong Kong and Singapore with leading product gatekeepers and fund selectors.

To be fair, in a low-growth, low-interest rate environment, clients have been eagerly scouring the investment landscape for new ideas for yield, as conventional asset classes such as bond and equity returns flounder.

In particular, since early 2016, there has been an increase in demand among wealthy clients for alternative assets such as private equity and hedge funds. Indeed, in the search for higher yield, it seems demand for new ideas is never ending. As one participant points out, the private banking industry in this region spends a lot of time showcasing new ideas to clients.

And this implies a product-centricity that is very typical in banker-client conversations in Asia.

Yet by doing this, the industry is neglecting another important aspect of winning new business and securing revenue – reviewing client portfolios.

A NEW WAY OF LOOKING AT THINGS

Arguably, most client advisers spend very little time assessing and analysing the existing components of a portfolio. But the fact is, it is possible to improve yields by simply reducing, adding or changing portfolio components at the right time.

An ideal situation, according to one of the practitioners, would be if advisers spent 80% of their time managing existing portfolios. This would also potentially fundamentally change the quality of the advice.

This is, in fact, what most successful professional investors do; they focus on existing portfolios because the majority of the time, 90% of the P&L in the foreseeable future will come from existing positions.

That's why frequently it's a waste for advisers to spend so much time focusing on new ideas.

LEARNING TO SAY NO

This is also tied to the fact that advisers need to also think twice before going along with client suggestions on new ideas or themes.

When clients themselves get excited about certain ideas and push for implementation, a banker needs the courage to say no if s/he believes the idea will not fly – and instead, be able to clearly explain why the returns from that idea will not be as expected. This is a challenge, however, because advisers are not accustomed to saying no to clients (even if it is for the latter's own good).

Indeed, most advisers are not equipped to even suggest selling a position, even a loss-making one, to clients.

That mind-set needs to change, and advisers need to realise that selling a product is not the only way to generate revenues.

While several research studies suggest that delivering long-term performance depends on portfolio construction, reviewing the portfolio regularly and weeding out inefficient components remain essential parts of the overall investment advisory process.

REGULATORY NUDGE

Certainly, some regulators also recognise the importance of product/portfolio reviews.

In certain markets, they are actively encouraging investors to ensure that any financial product purchased is reviewed regularly.

In Singapore, for example, the Guidelines on Fair Dealing – Board and Senior Management Responsibilities for Delivering Fair Dealing Outcomes to Customers 2013, note that where the financial institution has informed customers that it provides periodic review of their profiles and portfolios as part of its after-sales services, representatives should undertake such reviews.

"For such reviews, the representatives should consider any change in circumstances and financial objectives of the customers. They can then provide them with updated analysis and recommendations, which customers can use to modify their investment portfolios," the guidelines issued by the Monetary Authority of Singapore (MAS) state.

The MAS also notes that financial institutions should set out the scope of their services, and what customers can expect in terms of services at the start of the relationship with customers.

"The financial institution should provide customers with information and updates about their investments, both during the advisory and sales process and after the sale has been concluded."

impact the advice and products they've recommended for you."

The regulator also cautions investors about advisers who can only sell one investment product or solution; this could mean the advice doesn't always meet the specific needs and objectives of the investor/client.

ADOPTING A LONG-TERM APPROACH

Hong Kong and Singapore are also expected, in due course, to move away from product-centric approaches.

As one gatekeeper notes, changing the client engagement model by moving from product-driven conversations to ones focused on financial planning and investment goals, and which then changes the composition of product portfolios, is a priority but also a challenge.

"It is possible to improve yields by simply reducing, adding or changing portfolio components at the right time."

The Australian Securities and Investments Commission, meanwhile, also recommends that customers review their statement of advice (the document that sets out the advice given to a consumer by their financial planner or adviser) at least once a year to ensure the advice is still valid.

"Consider whether there have been any changes in your life that might affect your current strategy or attitude to risk," the corporate regulator's website notes.It also says: "Between reviews, your adviser should keep you updated about any changes to the economy, legislation or markets that

For other gatekeepers, they say that providing better value to clients comes in the form of improving the actual process of investment advisory.

Further, improving the communication loop by reducing paper use and leveraging technology to provide faster access to portfolio-related information is also considered important to improving the overall quality of the advisory process. ■

HNW clients to gain from a more transparent Asia

Private Banking clients are set to benefit from receiving more information, with increased transparency on charges, says Rajesh Manwani of Credit Suisse.

Stricter regulations which are forcing private banks to become more transparent in their overall engagement of clients is set to benefit the industry in the long run.

"Going forward the regulatory expectation of sharing information with clients will be higher, whether that be from a risk disclosure, a suitability or a fee transparency perspective," explains Rajesh Manwani, head of investment solutions and products with the private banking division at Credit Suisse in Asia Pacific.

RAJESH MANWANI
Credit Suisse

"Going forward the regulatory expectation of sharing information with clients will be higher, whether that be from a risk disclosure, a suitability or a fee transparency perspective."

MOMENTUM FOR CHANGE

Industry associations are involved in driving change too. Late in 2016, for example, the Association of Banks in Singapore announced new rules to its code of conduct requiring private banks to disclose all fees, charges and rebates in bond sales.

More changes will kick-in during 2017, as private banks will have to provide clients with a fee schedule, detailing fees charged for a product or service. This is all well-intended, with such rules enhancing transparency across product and service dealings.

"Today, clients are told what management fees or commission is being charged. Going forward, the range of trailer fees will also be disclosed," explains Manwani.

Already, retrocessions are no longer being charged on the discretionary side by most private banks.

DISCRETIONARY EMPHASIS

This is a part of the business which Credit Suisse is continuing to develop in Asia.

The Swiss bank's share of discretionary mandates within the context of its overall private banking AUM in Asia has risen significantly in the past few years.

There is further upside to this business. Nevertheless, getting to the levels of penetration in Europe is likely to be a challenge, based on the need to convince clients of the merits of ceding more control over their investment decisions.

Credit Suisse has observed that the bulk of the highly active clients tend to underperform discretionary mandates of a similar risk profile over their investment horizon.

As a result, Manwani is a staunch believer that discretionary mandates are one of the most effective ways of achieving the long-term investment objectives of clients, as they have an investment policy and strategy which bring discipline and risk management.

"The goal of having a discretionary portfolio is not always about outperformance; it is also about having a more predictable investment journey," Manwani explains.

More specifically, the draw-downs are lower than more concentrated advisory portfolios. "It's about recognising what the risk-return expectations are and being pragmatic about them."

ADVISORY FOCUS

At the same time, Credit Suisse will also focus on improving its advisory offerings in its Asian private banking arm in 2017.

There is scope to package these in a more compelling way for clients, believes Manwani. "We are working to make advice even more holistic, structured and personal."

The goal, he says, is to charge for superior quality advice and in doing so, differentiate itself from its competitors.

SINGLING OUT STOCK SELECTIONS

More broadly, one of the things his team already spends a lot of time focused on, is trying to wean clients away from an over-emphasis on single stock and bond selections, into more diversified bets. "We are spending a lot of time talking to clients about portfolio themes," explains Manwani.

Rather than picking an Apple or Google stock, for instance, his team tries to encourage clients to think in terms of the thematic exposure these single stock selections provide. This is a nudge in the direction of any gaps in their overall asset allocation.

A tangible sign of this was the fixed maturity bond that Credit Suisse launched in 2016.

The rationale for this was based on the fact that when it comes to bonds, most clients have a psychological need to stay anchored to a fixed coupon pay-out and a fixed end-date for the bond.

They typically have five to 10 bonds with high duration to satisfy this psychological need.

So the bank packaged this desire into a fixed maturity bond fund. "It's not a new concept, but launching it at the right time resulted in a large number of clients who subscribed and more than USD3 billion in inflows," says Manwani.

The fund sits between a fully-fledged packaged solution and single-security opportunities. As clients see the merits of this investing style, they hopefully start to think about allocating more funds from their portfolio towards discretionary mandates. ■

"The goal of having a discretionary portfolio is not always about outperformance; it is also about having a more predictable investment journey."

Aiming for a discretionary boost in Asia

There is an increasing focus within Deutsche Bank Wealth Management on boosting annuity revenues, says Tuan Huynh.

Boosting discretionary portfolio management (DPM) revenue is one of the key priorities for Deutsche Bank Wealth Management in Asia this year, according to chief investment officer and head of DPM for Asia Pacific, Tuan Huynh.

"Boosting DPM is a slow process, but there is a greater focus within the bank to increase annuity revenues not just from DPM but also from other annuity products such as mutual funds," he explains.

"This is likely to be achieved through a variety of ways including launching new products, how we position ourselves within the bank and the client segments we target," he adds.

The senior management team now believes the key to boosting DPM in the region is to target HNW clients. "HNW clients, with assets ranging between USD5 million and USD25 million, are whom we are targeting for higher penetration," says Huynh. The global private bank believes that wealthier clients, such as the UHNW segment, are less likely to buy into the idea of DPM as they might and often invest directly with asset managers or use their own asset managers to access opportunities.

Going for the HNW segment is, of course, just one of different strategies that private banks in the region are engaging in to enhance their assets under discretionary mandates.

TUAN HUYNH
Deutsche Bank

CHALLENGING DPM MARKET

Advisory and discretionary mandates have been a tough sell for private banks in the region, given that most Asian wealthy clients, who are for the most part first-generation and self-made entrepreneurs, like to retain control over their investment decisions and use private banks primarily for the execution of transactions. There is still a fair amount of resistance to paying for advice, although in keeping with global trends and regulations, it will be a matter of time before the advisory and discretionary model becomes more prevalent in Asia.

Almost every private bank is trying to boost discretionary mandates, although by most accounts, assets under DPM account for less than 10% of total AUM for the industry (there are a few exceptions to this rule).

Education remains key, as many rich families and individuals remain unaware of the benefits of professional investment management or even mutual fund investing. Most rich clients continue to invest by buying single stock/bond ideas.

NEW STRATEGIES

In terms of launching new products to promote DPM services, Deutsche Bank is planning to launch a fixed income product in the near future. "It's a strategy that has already existed for several years, but could be wrapped in a fund format for the ease of access for HNW clients," says Huynh.

The strategy has already existed for fixed income mandates worth USD3 million to USD5 million.

"However, HNW clients might not want to put that much money into one strategy alone, even though they like the track record," he says. "It's also different to buying a mutual fund because they know who the manager will be and there will be full transparency because it will be a managed product. "

SINGLE-STOCK IDEAS DOMINATE

Nevertheless, the job of convincing clients of superior performance through actively and professionally-managed portfolios has become even tougher in the current low-growth, low-interest rate environment.

There's little doubt that passive products have been giving active funds a run for their money in the past few years.

"Active managers have certainly had a tough time over the past few years," says Huynh. "What we have seen with professional managers is that they have shifted into passive products for mainstream markets such as Europe and the US, while choosing active for specific, niche themes and emerging markets."

The astounding rise in passives has also placed pressure on fees and performance of active funds, at a time when private banks, a key distribution partner, are undergoing a bout of consolidation, both globally and in Asia.

While the ascent of passive seems to be a general industry trend, Huynh says the story isn't necessarily the same for clients on the advisory side. "Here, clients are still looking at investment ideas in the form of single stocks or bonds."

Indeed, other market experts have also pointed out that clients sophisticated enough to opt for discretionary mandates typically have a higher risk appetite and seek managers who have similar risk taking ability. They are also more comfortable taking a longer-term view relative to the typical transaction-oriented wealth client.

In all cases, it's best to be diversified. In general, 2017 could prove to be a year where portfolios may benefit from a degree of tailored risk engineering intended to provide protection against volatility so as to ensure smoother portfolio returns irrespective of market behaviour, according to Deutsche Bank. There may also be scope for investment approaches addressing specific market scenarios and risks. ■

Time to book profit in equities

In terms of asset classes, the Deutsche Bank's wealth management unit has been more constructive on equities, but after the run-up in the first two months of this year, it is recommending clients to book some profit.

"US stocks have run up strongly, so we are currently neutral but remain positive about the long term.

Trump's proposals to spend on infrastructure and cut taxes are seen as positive for financial markets," says Huynh.

"Fears about the US imposing anti-trade policies against China also seem to be fading, so sentiment towards Asia is improving," he adds.

ASEAN growth in the last quarter of the year continued to be underpinned by domestic consumption although growth slowed slightly in the larger ASEAN economies.

Going forward, two trends may continue to benefit ASEAN. First, commodity price base effects favour the commodity-exporting Indonesia and Malaysia economies, even if oil prices remain stable near-term.

This price effect (oil prices are up 50% yoy currently) however, may taper by the end of the year.

Secondly, improving manufacturing growth momentum is likely to help some economies – in particular, Singapore and Thailand.

Bringing a more holistic approach to investing

Integrating the individual product conversation within the broader framework of investment goals is a key priority for Marc Lansonneur of DBS Bank.

One of the main objectives this year for Marc Lansonneur, managing director and head of managed solutions and investment governance at DBS Bank, is to ensure his team continue to focus on taking a more holistic approach when talking to their clients about investing.

"My biggest priority this year is to continue to drive a step-by-step dialogue with our clients and relationship managers (RMs) so that we integrate the product conversation within the broader framework of investment and wealth management goals, and translate that into portfolio management," he explains.

One already relatively large step in that direction is a move away from carrying out only product suitability; instead, he and his team are implementing a portfolio suitability approach.

That requires a scalable business model and a methodology for implementing the portfolio suitability assessment – both of which Lansonneur says the bank has. Further, while integrated systems are a key component, he believes that changing the sales behaviour and processes is even more important.

"The one-off assessment of the product at the point of sale is paramount," he says. "But we believe that when a banker sells a product to a client, he/she should also assess suitability based on what exists in the portfolio already."

In addition, there should be regular assessments of what has been purchased and how these products have performed over time. "Understanding when it's a good time to rebalance is as important as undertaking a new transaction," adds Lansonneur.

All of this makes it more likely that RMs as well as clients will start to think about correlation, currency exposure, leverage and interest rate implications across the entire portfolio.

MARC LANSONNEUR
DBS Bank

ALL ABOUT ADVICE

Thinking about entire portfolios is an essential element of encouraging a more advisory-led approach. This also looks likely to get a boost from regulatory changes.

In the UK and across parts of Europe, for example, reforms have already separated product commission from investment advice, requiring clients to pay for advice.

In Asia, however, many clients still have a transaction-based mind-set. Getting them to embrace a more holistic approach to portfolio construction and asset allocation, therefore, remains a big challenge.

But while Lansonneur acknowledges an inevitable segment of wealthy Asian investors who are more self-directed, there is an even larger swathe of clients who are not actively looking for the next hot stock tip or trade idea.

"They want something consistent and the engagement cannot be based on a tactical call or transaction. It needs to relate to the longer-term investment goal," he says.

"There is high potential to push for advice with this large segment of clients," he explains.

Indeed, the realisation that global regulatory change will usher in a new era of paying for advice in the coming years is one reason why private banks of all types in Asia have been pushing for an increase in take-up of services such as discretionary (DPM) and non-discretionary portfolio management mandates.

DBS has been trying out a non-discretionary advisory model that seems to be working quite well, according to Lansonneur.

"The client gives us a mandate and can also participate and have discussions with the portfolio manager," he explains.

"In other words, the portfolio management is delegated but the client still takes the investment decision. It is not completely discretionary because the client may also put in his own reverse inquiry trades."

CHANGES FOR ASSET MANAGERS, TOO

Another of the new challenges facing product specialists at private banks is the ongoing consolidation across the two industries. Lansonneur believes it is the fall-out of a crowded product sector generally, driven by the higher costs, required to quickly adapt its business model.

"There needs to be less [focus on] upfront fees and the fee structure needs to be more performance driven," he says.

Fund managers simply cannot continue to sell products they way they did before, notes Lansonneur.

"Products need to be built into modules that are part of larger financial solutions for clients," he explains.

"It's also important for fund managers to have flagship products, instead of 10 average funds that cover all asset classes."

The rise of passives has also rattled the cages of active asset managers. In recent years, for example, passives have gained strength both in terms of performance and inflows, at the expense of actively-managed funds. One reason for the surge in popularity is the fact that instruments such as ETFs are much cheaper.

Yet ETFs cannot replace asset allocation and portfolios cannot be constructed simply using the cheapest available product.

As a result, Lansonneur believes that ETFs are, to a certain extent, being used for the wrong reason – just because they are cheap. Instead, he believes they should be chosen if they can add value to a portfolio.

Although ETFs can be better than poorly-performing active funds that don't beat the benchmark, right now, investors who will not pay or don't want to pay for advisory are the ones choosing ETFs portfolios.

"Those [investors] who want to assess their risk-reward profiles more rigorously, and are willing to pay a little more, will have access to a portfolio of managed funds (including ETFs) with proper asset allocation, rebalancing, and fund / ETF selection," he adds. ■

After hours with Marc Lansonneur

- *Has three children: two girls and one boy*
- *Coaches young children in rugby*
- *Plays for the Singapore Cricket Club*
- *Is a wine connoisseur and collector – with around 2,000 bottles in Europe, in a bonded warehouse*
- *Has two favourite wines: Clos des Fees and Chateauneuf du Pape*

How to create a winning fund for investors

The USD3.3 billion-plus of inflows into Credit Suisse's fixed maturity bond fund within just a few months in 2016 showed what can be achieved by understanding the needs of Asian investors, says Alexandre Bouchardy.

The great success that Credit Suisse's asset management division saw with the fixed maturity bond fund it launched in mid-2016 has shown that the bank knows what it takes to woo investors in Asia.

Within a few months of the fund's release in May, it had amassed USD3.3 billion in AUM. And this was despite it coming off the back of a volatile few months combined with the expectation of rising rates.

The secret of its phenomenal success? An astute understanding of client needs and market environment combined with a successful collaboration with Credit Suisse Private Bank, plus good timing.

"When Credit Suisse initially thought about launching [this fund], the scenario we envisioned was that of gradually rising interest rates as well as default rates," explains Alexandre Bouchardy, head of Credit Suisse Asset Management in Singapore, and also the firm's fixed income chief in Asia.

This followed an initial six-week period at the start of 2016 which was more volatile than many market practitioners had seen for a long time. Led by Chinese equities, which experienced steep falls in prices over changes to market regulations and a dimming economic outlook, investors were in risk-off mode.

As a result, they were on the hunt for assets that were relatively safe and offered reasonable returns.

A SOLUTION TO WAVERING SENTIMENT

Bouchardy and his team believed they had an answer. They felt confident about their view of investor sentiment at the time, so decided to create and launch the CS Nova (Lux) Fixed Maturity Bond Fund 2019 (the fund is now closed for subscriptions).

ALEXANDRE BOUCHARDY
Credit Suisse

This is a Luxembourg-domiciled fund whose main objective is to offer an attractive return by investing in US dollar-denominated corporate and quasisovereign bonds with a final maturity of up to December 2019.

The fund, which is jointly managed by Adrian Chee, head of portfolio management and credit in Asia, and Lei Zhu, senior portfolio manager on the Asian fixed income team, seeks to maintain a low and reducing-duration profile, a long-term average credit rating of BBB- (on a linear calculation), and be broadly diversified in terms of sectors, issuers and countries through ongoing fundamental credit monitoring.

As of the end of January 2017, about 34% of the fund's portfolio was invested in Chinese fixed interest instruments, while another 31% was invested in global fixed interest.

REDUCING RISK

A key advantage of this type of funds is their ability to provide investors with a payout structure which is comparable to a single-bond investment, but with greatly reduced single-issuer risk given the well-diversified portfolio.

As Bouchardy notes, the goal was not to offer a higher yield; instead, it was to offer a relatively stable product with reasonable returns in an environment of rising interest and default rates.

Compared with other products in the market, this fund invests in relatively less risky bonds and aims to offer a 4% return p.a.

Its run-away success can be seen by the fact that it was initially slated to close in September 2016, but due to high subscriptions, it closed in June 2016.

Indeed, demand from investors for the product was so high that Credit Suisse launched a second fund under the series: Credit Suisse (Lux) Fixed Maturity Bond Fund 2020 S-1 (this fund is also closed for subscriptions).

This fund invests in investment grade and non-investment grade bonds from developed and emerging markets.

READY TO ACT

More broadly, given Bouchardy's view of current market conditions, he recommends that investors "be ready to react quickly to potential overshooting".

This is required, he explains, given the potential for either significantly higher or lower rates – depending on how markets move.

"There is a possibility of a risk adverse environment, accompanied usually with lower equity prices, wider credit spreads and lower US Treasury yields if the threat of trade wars grows," he says. "So, we expect some volatility, although Asia should be relatively insulated within Emerging markets."

Already in developed equity and credit markets, valuations look quite expensive versus the credit cycle, he adds.

In line with this, he sees the potential of risk aversion coming back on the credit side as investors continue to digest the implications of the Trump presidency.

And in such an environment, for investors in Asia, it will be important to understand how much regional credit is exposed to US demand.

Eye on China

In 2017, Bouchardy says that Credit Suisse is eyeing a China-focused fund launch.

"We are looking at launching a China onshore fixed income fund. It's an area in which we have the advantage of being an early mover," he explains.

The appeal is clear to see. China has the biggest bond market in Asia (ex-Japan), and its importance is underscored by the fact that the RMB is expected to become a global reserve currency over time.

"What investors should also not forget is the potential gains for China as a pro-globalisation, pro-trade nation as the other country known for globalisation and trade, the US, retreats," adds Bouchardy.

He believes this dynamic could encourage further liberalisation in China's financial market, including increased access to the corporate bond market.

By contrast, the US, under a new administration led by Donald Trump, is expected to go on reverse globalisation and free trade, should the new president decide to act on his campaign promises.

Geo-political risk is another factor he believes investors should pay attention to. "Whether it's the Middle East, European elections, South China Sea or potential trade disputes, geo-political risks are still being overlooked by investors." ■

Breaching the mobile frontier for structured products

FinIQ and Deutsche Bank Wealth Management believe that by bringing to market the world's first mobile app for structured products, the industry as a whole will benefit from greater transparency, better informed clients and more relevant portfolios.

The world's first mobile app for structured products heralds a significant step forward for a sector which has started to regain a lot of momentum on the back of positive market sentiment in early 2017.

The innovation promises to be a win-win for everyone involved – product providers, individual relationship managers (RMs) and investment advisers within wealth management firms, and also end-clients.

For the time being, FinIQ and Deutsche Bank Wealth Management stand to benefit from bringing this to market first.

"We were driven to want to develop this with FinIQ by the thought of being able to create a better platform overall,"

"We were driven to want to develop this with FinIQ by the thought of being able to create a better [investment] platform overall."

says Akshay Prasad, managing director and head of structured products for Deutsche Bank Wealth Management in Asia.

This includes increasing market access for RMs, advisers and client alike, as well as lowering the barrier to knowledge about this set of products, and helping to grow structured products volumes. Adds Mahesh Bulchandani, chief executive officer (CEO) for FinIQ in Asia Pacific: "The simplicity and con-

AKSHAY PRASAD
Deutsche Bank Wealth Management

MAHESH BULCHANDANI
FinIQ

Traditionally, clients have had to wait for their RM or investment adviser to go back to price different combinations of ideas with the product team and counterparties.

Yet given the large number of variants in any trade – ranging from maturity, expiry, strike and barrier levels to the number of stocks, issuer name and other criteria – made this a time-consuming process.

It might even have often killed the momentum in a conversation where a trade might now otherwise get done.

stocks, the RM or adviser can now immediately price a relevant structured product, he explains.

"There and then on their phone, they can show their clients an instant price for different combinations of features or variable," says Prasad.

This also then leads to a more meaningful conversation.

Plus, no longer must RMs or advisers have to rely solely on their laptops in order to show clients this data, explains Bulchandani.

"A huge comfort factor is the fact that clients understand the different types of product better. This is fundamental to the longer term benefits for wealth management."

venience of the mobile apps for structured products make these products easier to understand and easier to explain, and thus help grow the market the structure products."

LOGICAL PROGRESSION

By announcing that it has gone live with this mobile app, FinIQ, as a specialist software solution provider for the distribution and transaction processing of treasury and wealth management products, has created a clear evolution for its existing Connect platform.

This offers connectivity between private banks and top market-makers in the equity-linked and FX linked space for equity-linked securities, equity linked OTC derivatives, FX, FX options and Bonds.

With a mobile offering, however, the volume of trades which are tailored and relevant to individual clients might potentially increase exponentially.

Despite the launch of greater connectivity to market makers in recent years, the speed and flexibility of the new mobile engagement takes this to a new level.

ACTIVITY BOOST

This complements feedback Prasad says he has had from his RMs and investment advisers on the bank's investment platform overall in early 2017.

And although it is still early days for the mobile app, more specifically, it is already helping in the typical conversation with clients. For example, when a client starts enquiring about different

Inevitably, with a heightened level of understanding among clients about products, both the bank and individual bankers or advisers stand to benefit too. "A huge comfort factor is the fact that clients understand the different types of product better," adds Prasad.

"This is fundamental to the longer term benefits for wealth management."

According to Bulchandani, it is the DIY element of the app which helps to demystify the product itself. "Clients can see instantly how a change in the strike price or maturity alters the product."

Clearing complexity

According to Bulchandani, it was naturally a challenge to be able to fit the complexity and depth of product informational required within the confines of a small mobile screen, in comparison with a laptop.

FinIQ also had to help Deutsche address any security concerns involved when using a mobile device.

For example, says Bulchandani, this involved dealing with issues if a mobile gets lost, or if the software is upgraded.

After working with the client to solve all those issues, the platform then went live in late January.

Yet making the most of it also comes down to being able to drive the right types of conversations with clients.

"Tools like this are as much about how you use them," says Prasad. "This tool is optimal for our business."

To maintain this edge, the bank wants to continue to work to further enhance the user experience. "A lot more can be achieved through this app," says Prasad.

"For example, to track what is happening in new portfolios and get more market colour and insights."

More specifically, this could be in the form of metrics about which stocks are gaining in popularity, and why.

MILIND KULKARNI
FinIQ

Indeed, launching the mobile app at the moment also coincides with an uptick in structured products volumes.

"Interest in structured products is high at the moment," says Prasad.

This activity has come off the back of the momentum from relatively positive market sentiment. "Investors are focusing on protecting their downside while either generating yield or participating on the upside," he adds.

"Digitisation of advisory, price discovery and trade execution is going to revolutionise how wealth works."

COMPETITIVE EDGE

For Deutsche Bank, clearly being the first private bank with this mobile app creates a short-term advantage over its competitors in this space.

There is also the potential to have more impact in other spectrums across the investment platform, he adds.

DIGITAL FRONTIER

This all highlights the fact that the addition of mobile apps is a milestone for the industry.

"Digitisation of advisory, price discovery and trade execution is going to revolutionise how wealth works," says Milind Kulkarni, global CEO for FinIQ.

But mobile apps for structuring is just the beginning, he adds. "Over the past decade, we have successfully launched various trend-setting technology tools and we hope our new offerings will continue to empower more sales channels, allowing bankers to price products on-the-move." ■

Navigating the Thai funds landscape with ease

The launch of Fund Navigator, a tool for fund selection, will be a first among fund houses in Thailand, according to Kasikorn Asset Management's (KAsset's) Vasin Vanichvoranun.

KAsset is already widely viewed as the fund house to catch in Thailand, with the largest distribution network in the country. And in 2017 it intends to build on its advantage with a slew of initiatives aimed at simplifying the investment process for its clients.

This will build on work that Vasin Vanichvoranun, executive chairman, says has been underway throughout 2016 to help investors do this in practise, via a range of services and tools.

The starting point is to re-inforce the idea that investing can be convenient and financial planning need not be complicated.

"The main focus will be harnessing the power of digital technology to investment planning," explains Vanichvoranun.

In line with this, the obvious next step for KAsset is to become a robo-advisor. And to move in this direction, the fund house plans to launch its 'Fund Navigator', a tool for fund selection.

TAKING THE LEAD IN THAILAND

The Fund Navigator, which is an individually customised portfolio analysis tool, will be a first among fund houses in this South-east Asian country.

Rather than lead with a conversation about asset classes, the firm chose to build a tool that classifies mutual funds into five categories by investment goals – with KAsset then able to tap into its product pipeline with something suitable to meet each client's traits and goals.

For example, the first objective is liquidity – having money for short-term spending – with KAsset able to then offer appropriate products such as money market mutual funds.

Another objective is to build returns that beat inflation, while maintaining the principal. Investors in this group require highly-secure investments and therefore, tend to avoid volatile assets such as stocks.

VASIN VANICHVORANUN
Kasikorn Asset Management

Some investors may also prefer regular income, which also serves the needs of those heading into retirement.

Funds that offer this could be invested in assets that have a cash flow, such as stocks with high dividend yields, or non-investment grade debentures.

To cater to a growth objective, meanwhile, investors might be recommended to invest in equity funds that have varying proportions of equity investments. Investment styles could be varied.

Finally, the fifth objective of making opportunistic returns would lead investors down the path of alternative assets or specific industries, exposing them to concentrated risk.

This requires them to have sufficient skills to seize market opportunities to generate desired returns over the short term, while possessing the ability to tolerate potentially high losses.

"We want to align our customer's expectations towards products, which means substituting financial jargon with easy-to-understand investment goals."

"We want to align our customer's expectations towards products, which means substituting financial jargon with easy-to-understand investment goals," explains Vanichvoranun.

A DIGITAL MISSION

To build on this flexible, user-friendly mind-set that KAsset wants to foster, the firm plans to introduce new mobile applications to investors who are seeking to conduct transactions via smartphones. In particular, the apps to watch out will be K-My PVD for provident fund customers and K-Mutual Fund for mutual fund investors.

These follow the benchmark the firm has set in the market already, in unveiling digital innovations aimed at helping clients make sensible investment decisions.

For instance, it created an app called My Port Simulator. This is a tool for portfolio analysis and management based on customers' risk appetite. Another was a redesigned K-Cyber Invest, which assists customers in making an effective investment plan.

It is little surprise, therefore, that Vanichvoranun expects advisory capabilities to be eventually embedded into this channel.

"The advice will help our clients create objectives and assess performance, and whether it matches expectations and helps to achieve their long-term goals," he says.

don't know much about investing," says Vanichvoranun.

That is also why he believes it is important for both the regulator and the asset management industry to play a role in promoting investor education.

When it comes to product knowledge and adoption, clients can be separated into two broad categories. At one end, he explains, is the mass market investor who doesn't know much about investments; at the other end are private clients with access to more complex products and also advisers to explain product features or risk profiles. Underlying its philosophy of simplification,

"Rather than sell, product by product, we try to find out what our customers' needs are and then provide advice on the best asset(s) to fulfil those needs."

RAISING INVESTMENT COMPETENCY

For the time being, however, he also acknowledges that the relatively low levels of financial literacy among Thai investors mean that the benefits of long-term financial planning and the appropriate use of mutual funds are unfamiliar concepts to many people.

Indeed, tax incentives attached to mutual fund investing tend to drive assets under management.

"It starts with investors who have parked money in bank deposits gradually venturing to look at other options in search of better returns. But they

KAsset is trying to encourage a more holistic approach to investing.

"Rather than sell, product by product, we try to find out what our customers' needs are and then provide advice on the best asset(s) to fulfil those needs," says Vanichvoranun.

The current arsenal of investment options at his disposal at KAsset is relatively limited, manly consisting of long-only products at this stage.

"We need to embrace new strategies and financial instruments," he adds. "What we do have in our favour is our investment capability." ■

Unprecedented change in Thai product offerings

The last couple of years have accounted or sweeping changes in the Thai investment landscape – especially more frequent and active discussions about the benefits of open architecture product platforms.

This certainly now seems to be the next logical step in the evolution of the country's mutual funds industry.

"The recent stock exchange initiative will encourage open architecture product platforms, a move that will usher in unprecedented change in Thailand's asset management industry," says Vanichvoranun.

He is referring to the collaboration in late 2016 between the Stock Exchange of Thailand and the mutual fund industry to jointly develop FundConnext, a technology-enabled fund service platform to process the buying and selling of mutual fund orders, in turn enabling investors to access mutual funds efficiently.

The open architecture platform is designed to standardise mutual fund operations and reduce operational burden among fund houses and selling agents, can be extended to support other services in the future.

Over 43 participants have signed up so far to use the platform, which is set to be launched soon.

Measures like these are expected to increase the adoption of mutual funds by investors in Thailand.

Taking Thai investment solutions to the next level

The securities regulator has been progressive in facilitating a more open and international investment landscape. Key components of success in the wealth business today are quality of advice and breadth of solutions to match clients' needs, says Sornchai Suneta of Siam Commercial Bank.

With more access for the wealthy, Thai investors now seek advice and a wider range of investment products.

Finally a reality, bank platforms and advisory capabilities can develop to the next level.

"Rather than just be able to offer clients more product, we need to make sure we offer the right quality of advice," says Sornchai Suneta, first senior vice president, CIO office, at Siam Commercial Bank (SCB).

This also correlates with the growing importance of managing risk in a much more fluid way amid the current returns-starved environment.

Such an evolution also ties in to the desire among local institutions to be able to quickly move beyond plain-vanilla products, to deliver tailor-made solutions also.

"We are pursuing the direction of open-architecture platforms," says Suneta.

At the moment, the bank offers a wide and deep product range, from simple money market instruments to structured notes, and a wide range of bonds from plain to perpetual.

It also has complex products such as alternative assets and hedge funds; and through its hedge funds, it gives investors access to many strategies.

FINDING A PRODUCT EDGE

SCB already provides a certain level of advice to its wealthy clients on the market outlook and investment options.

It then seeks to propose tailor-made strategies for them.

"It is important to offer [clients] a good mix between strategy and solution," explains Suneta.

SORNCHAI SUNETA
Siam Commercial Bank

This year, Thai investors are on the look-out for strategies which give them a stable and consistent cash flow over the long term. "They don't view fixed income as a viable option in the current market environment of low yield," he adds.

SCB's approach to this over the past 12 to 18 months has included focusing on the alternatives spaces and absolute return, mixed-asset strategies.

"We gave advice to clients to consider more REITs, both listed and unlisted, infrastructure, and a mix of onshore and offshore asset allocation with absolute return targets," explains Suneta.

"We add this to strategies in the portfolio which can create a higher cash flow, like high dividend-paying stocks or preferred shares."

More broadly, the current absolute return platform provides a range of mixed assets to offer diversification – for example, local and foreign equities, high-yield products, asset-backed securities, local and foreign REITs, and also infrastructure.

For physical assets, the bank can refer clients to overseas partners, but it offers some advisory services for direct investments in property.

To fill the product gap, private equity and Lombard loans are still a work-in-progress and in the pipeline.

"Although, some Thai HNWs already hold offshore private banking accounts, we have our edge in Baht-denominated products, which is the major part of HNW allocations," says Suneta.

A MORE MANAGED APPROACH

SCB also has a keen focus on doing discretionary portfolios for clients. In the same way as this works offshore, clients give a mandate with specific guidelines. SCB's portfolio managers then make the relevant investment decisions on behalf of these clients.

"For the upper segment, which is private banking in Thailand, already a reasonably large proportion of portfolios is held as deposits in bank accounts, fixed income, mutual funds, REITs, insurance and equities," explains Suneta.

For the affluent population, the majority of their allocations is still held in a mix of deposit accounts and low-risk assets such as money market instruments.

Yet this is where SCB eyes a big opportunity, given the need of these investors for more diversification and higher returns.

"We have seen lots of developments in terms of more products and greater offshore access," he adds.

And by allowing investments in hedge funds as of last year, there are a lot more opportunities in the market.

These are not only for investors, but also for collaboration between local and offshore asset managers, and therefore in the wealth management business.

"More variety means more scope to create higher returns and more diversification for clients," explains Suneta.

GETTING UP-TO-SPEED

What's important now, he says, is the required widening and deepening of education for the mass segment of retail investors. This aspect of the market is still lacking.

"Rather than just be able to offer clients more product, we need to make sure we offer the right quality of advice."

SET FOR GROWTH

There are certainly good reasons for optimism in terms of the potential for developing a broader product offering in Thailand.

The Securities and Exchange Commission, for example, has been quite progressive over the past two to three years, says Suneta,

It has been opening up the market a bit wider as it brings it more in line with international standards.

"If you look at the key issues that regulators are always concerned about, these relate to mis-selling," explains Suneta.

"This is both from the seller's side as well as from the buyer's side."

A knowledgeable investor base would reduce the number of such situations, he adds. ■

Regulatory reform crucial for Philippine funds' growth

The country's mutual funds industry stands to get a much-needed fillip when the Collective Investment Schemes (CIS) Law is finally in force, say Valerie Pama and Michael Enriquez of Sun Life Financial Philippines.

Approving and implementing the long-awaited CIS Law will go a long way in boosting the growth potential of the asset management industry in the Philippines. That's according to Sun Life's Valerie Pama and Michael Enriquez, president of the local asset management business and chief investments officer, respectively.

These views also reflect the consensus of industry practitioners at a recent Hubbis roundtable of leading asset management executives in Manila. They believe that a change in the regulatory environment – and in particular the CIS Law – would provide a big boost to the funds industry. The legislation, pending for more than a decade, will provide a level playing field to various collective investment schemes.

Currently, unit investment trust funds (UITFs) are the main form of retail collective investment schemes in the Philippines. However, mutual funds (MF) and variable universal life insurance policies (VULs) are other collective investment schemes that are reasonably popular as well.

The UITF industry is estimated at around PHP 800 billion (USD16 billion), with about PHP 600 billion accounted for by money market funds. The MF industry, meanwhile, is estimated at around PHP250 billion. At the moment, all three schemes – MF, UITFs and VULs – are governed by different regulators such as the securities watchdog, central bank and insurance authority. Because tax implications on each scheme are different, there is considerable tax and regulatory arbitrage among these investment products.

"UITFs, for instance, are allowed to have feeder fund structures while mutual funds are not," says Pama. "Mutual funds, however, can be a fund of funds. VULs, meanwhile, can invest in other types of assets as well." The tax treatment is also very different for each scheme. In particular, the tax regime for MFs is considered the most repressive. To give one example, MFs are subject

VALERIE PAMA
Sun Life Financial Philippines

MICHAEL ENRIQUEZ
Sun Life Financial Philippines

to documentary stamp tax and corporate income tax due to its legal structure, while UITFs are not.

"I believe the regulations should definitely change and there should be a level playing field for UITFs and MFs. VULs, however, should be separate because they are insurance products," says Pama. She adds that if the CIS Law is implemented, the securities regulator is expected to take charge of UITFs and MFs.

CREATING A MORE CONDUCIVE MARKET

There is also a lack of financial literacy and understanding in the Philippines on the importance of investing among the general public.

"Many people are unbanked and those who do have bank accounts look at their savings as their investment," notes Enriquez. "They need to move out some of their savings and try out fund investing. Right now, there is a lack of understanding and confidence about investing." Accessibility of investment options is another issue which he highlights. However, to some extent, this is being addressed gradually by the introduction of online fund platforms.

Among the recent movers in this regard was First Metro Securities, which launched its online mutual funds platform last month, in both web-based and mobile application formats.

"Now there is a proliferation of online fund distribution," adds Enriquez. It suggests a growing acceptance of funds by retail clients through banks and via online channels." Indeed, despite the many challenges, the country's asset management industry is doing its best to be more financially inclusive, according to the Sun Life duo.

"For instance, the industry is working with the [securities regulator] to lower the minimum investment amount from PHP5,000 to PHP1,000, or even PHP100. That will allow people to start investing even with very small amounts," explains Pama.

Doing its bit, the Canadian-based group also introduced a comprehensive financial planning programme called 'Money for Life' that aims to help clients ensure that they have sufficient funds no matter where life takes them. The programme, which also has an app, involves a series of simple questions that aim to ensure customers can plan for their future appropriately given their broad long-term financial goals.

"We have generated quite a bit of interest through our campaign, but there is a requirement by law that financial institutions need to conduct face-to-face verification of identity. That is still a challenge, especially in locations that are far from our branches and client centres." adds Pama.

While documents can be submitted online, she says physical verification is also needed. "Documents can be submitted online, but a physical verification is also required as of now." Pama notes that the industry is currently lobbying the regulator for easing such requirements. In a country boasting more than 7,100 islands, expecting every customer to come to a branch for identity and document verification can be cumbersome and might lead him/her to decide against going ahead with an investment-based transaction.

SIMPLICITY IS EVERYTHING

The Sun Life pair believes simplicity is key when attracting new customers – and also staff – to the idea of investing. "When we bring in new employees at Sun Life, we already have a starter or initial investment plan for them," explains Pama. "It's simple because all the documents are already provided during the hiring process. Most of them sign up for the investment plan. Even if they decide to change their mind, it's easy to change the plan."

Giving people something very simple and as low risk as possible, at least initially, is one way to encourage them to start investing, she adds.In the Philippines, after recently completing its five-year corporate plan, Sun Life has set itself some new goals: between 2016 and 2020, it aims to engage with five million Filipinos. Currently, Sun Life Financial Philippines has about 1.2 million customers. In addition to the firm's interest in growing its institutional business, part of the expansion is to also reach out to middle-income customers. "Our focus has been the high-income market until now. We want to expand our reach," says Pama. ■

How bank de-risking is hampering Hong Kong's ambition

The difficulty in the simple task of opening a bank account in Hong Kong is adversely affecting business opportunities – and threatens its potential as a competitive international financial centre.

A number of banks in Hong Kong – including the top end of the market – are adopting a 'de-risking' and 'de-banking' approach that is hampering the ability of financial and advisory firms to get set up and running.

A policy which is effectively preventing newcomers or smaller companies from opening bank accounts is therefore damaging the competitive of a financial centre that prides itself on being competitive on an international stage.

In shunning those types of firms in many cases, those banks are suggesting that they only feel comfortable working with more established institutions.

These are some of the views of many respondents to a recent Hubbis survey of over 50 leading wealth planning and structuring professionals in Hong Kong and Singapore. It's a classic Catch 22 problem: to open a bank account, a client needs to prove existing business. But to prove existing business, the client needs to show past customer payments. To receive past customer payments, the client needs to open a bank account.

EVALUATING RISK

A key issue, say many industry practitioners, is that a lot of banks in Hong Kong are not dealing reasonably with so-called 'client risk' on a case-by-case basis.

This kind of approach is not in keeping with the dynamic, fast-moving environment of structuring HNW and UHNW assets.

And, ultimately, the more narrow-minded banks – and jurisdictions – will suffer in the long run.

"Banks need to get better at understanding risk and gathering relevant information about the source of wealth, funds and tax residence," says Peter Triggs, managing director, regional wealth planning at DBS Bank. "They should not become paralysed when judgement calls need to be made. They need to revise their internal processes,"

IAN BLACK
AAM Advisory

he adds. Another senior trust professional adds that it is the facts on each individual client's circumstances which should matter when a bank assesses the opening of an account.

Broad applications policy such as "we no longer open bank accounts for BVI companies" are clearly not in the interests of anyone.

In short, it seems, instead of managing risk, most banks are trying to avoid risk.

HIGH OPERATIONAL COSTS

A senior lawyer who responded to the survey believes that the process of opening a bank account is too cumbersome and inefficient.

issue for any financial centre. "To invest and/or to do business, you need a bank account.

If the client has had good advice, understands the purpose of the structure and is dealing with a good quality financial intermediary and relationship manager, then they will be able to open their account.

If any of those components are missing, then the process will be frustrating," explains Andrew Niles, business development director, Intertrust Guernsey. Indeed, the difficulties that many people have experienced recently with opening bank accounts in Hong Kong are damaging its reputation in this way.

WILLIAM AHERN
Family Capital Conservation

"Banks need to get better at understanding risk and gathering relevant information about the source of wealth, funds and tax residence. They should not become paralysed when judgement calls need to be made."

The pitfall of this is that it increases operational costs for banks and other financial institutions, as well as clients and their advisers – further increasing the cost of business for everyone.

While larger companies have little problem in setting up bank accounts, it is a puzzle for the smaller firms to do the same.

COMPETITIVE DAMPENER

Not being able to open bank accounts quickly and efficiently is clearly an

Industry practitioners believe that if the local market is to maintain its reputation as a key financial hub, resolving this issue is of paramount importance.

Evidence of this is the fact that Singapore seems to present an easy alternative. Says Ian Black, head of wealth solutions at AAM Advisory: "We have had no problems when opening bank accounts in Singapore, provided the client is referred by someone known to the institution and the funds can be shown to be clear and clean."

WORRYING TREND

Perhaps most concerning for some practitioners is that fact that many banks across a number of jurisdictions also seem to be adopting similar practices in response to the issues of tax compliance and transparency in the wake of the Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI).

Even still, Hong Kong seems to have taken a rather strong stand with regards to these initiatives.

"[The situation is] bad everywhere; but it is especially bad in Hong Kong," says William Ahern, principal at Family Capital Conservation.

"Any respectable jurisdiction that can resolve this problem will be able to do well in the current era of changing regulations." ■

Compliance - what's the right balance with the business?

Compliance policies and decisions need to be standardised and made with commercial viability in mind. But they need to avoid any conflicts of interest where they might skew the recommendations to profitable initiatives.

Some practitioners say that compliance as a second line of defence can only be neutral or negative as it works to identify risks and potential consequences. Otherwise there are likely to be conflicts.

If compliance benefits directly from business gains, for instance, then they will find it more difficult to distinguish themselves from the front office. Compliance functions would become KPI-driven and, potentially, reckless.

It is important for compliance to remain a function which is assessed on how it enables the business.

In this way, compliance teams can be more visible in being seen to make decisions on how compliance itself can be demonstrated.

This includes setting policy objectives and minimum standards to be adopted by the business.

And whether that enablement translates to profitability is not within the control of compliance, say senior industry practitioners.

A 'business' decision to comply, whether as a matter of rule or exception, is a business-owned decision.

Where there is certainly more of a role for compliance is in helping senior management find a balance between over-regulation and doing business.

Senior compliance managers should participate in business discussions such as prior to launch or committing to a transaction. More fundamentally, this is what a strong first line of defence does – act as a gatekeeper to help senior management reduce risk to acceptable levels, but minimise impact to doing business.

"Where there is certainly more of a role for compliance is in helping senior management find a balance between over-regulation and doing business."

MAKING BUSINESS DECISIONS

Having said this, implicitly all compliance officers should factor in their employer's business viability in their decisions. But this should stay out of their formal KPIs.

How this is achieved in practise, however, is an art not science.

Without more business experience and an understanding of how to comply in a commercially-viable way, compliance practitioners say that many officers might take the easy route of saying ‘no’ instead of understanding the risk and creating a process to reduce it, in order to enable business.

At the same time, compliance officers say that would benefit in their assessments and decision-making if the business provided more information and background.

A COMMON APPROACH

Without standards for the industry, rules will get interpreted and implemented differently from one institution to the next.

In turn, this will lead to potential consequences such as the potential for regulatory arbitrage, as well as instances of fraud as people look for easy gateways, say practitioners.

There is no cookie-cutter approach to compliance judgment, just as there is no one standard private banking business or management model.

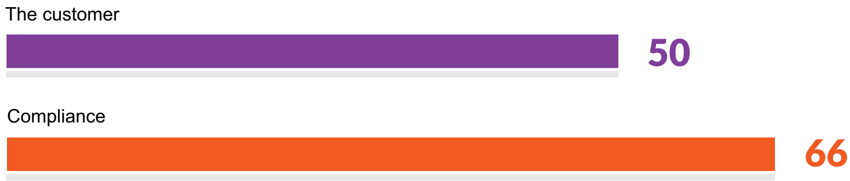
But more can be done to formalise the sharing of good practices.

In Singapore, for example there are informal compliance roundtables, although membership can at times appear exclusive to market-leading firms.

Participation is not mandatory and often inconsistent – in short, it does not have the trappings of a professional body.

Some practitioners believe that efforts should be made to promote harmonisation – if not standardisation – at least in approach and strategy. ■

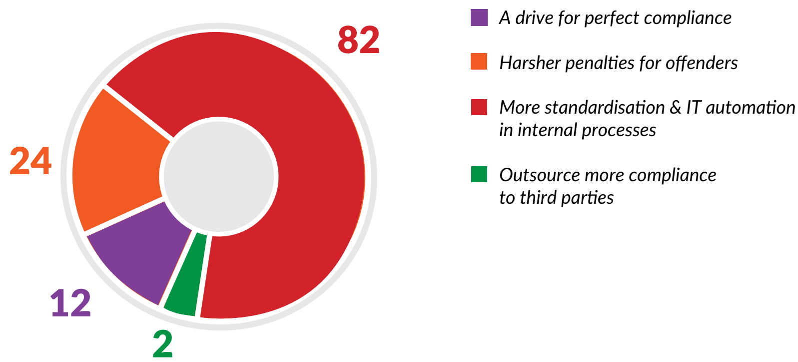
DO WE PUT THE CUSTOMER FIRST OR COMPLIANCE FIRST (by number of votes)



Source: Hubbis Compliance in Asian Wealth Management Forum 2017, Singapore

“Where there is certainly more of a role for compliance is in helping senior management find a balance between over-regulation and doing business.”

WHAT SOLUTION SHOULD SENIOR MANAGEMENT IMPLEMENT FOR THE BUSINESS? (by number of votes)



Source: Hubbis Compliance in Asian Wealth Management Forum 2017, Singapore

How bankers can act and behave in a compliant way

Along with harsher penalties for individual bankers who do the right thing, more consistent and practical approaches to training and consequence management are necessary to ensure the front-line actually knows what the 'right thing' is.

Senior management at banks and other wealth managers need to spend more time focusing on the compliant nature of relationship managers (RMs) and client advisers.

The front-line today, especially in developed financial hubs like Hong Kong and Singapore, are keenly aware of how serious regulatory compliance is. And most bankers ultimately want to do the right thing.

The problem, according to senior compliance practitioners, is knowing what the 'right thing' is to do.

A big challenge in guiding the front-line in this journey is ensuring knowledge and transparency in the path to compliance – telling people what to do, when and why.

This means they can be adequately skilled and equipped to handle client concerns and complaints about why the relationships and engagements are changing, and how these changes are positive and beneficial at both ends.

Only RMs who accept the organisation's developmental path and own the conversation with their clients, will drive relationships forward. This is according to a Hubbis survey of over 100 of the leading compliance practitioners in Asian wealth management.

"Bankers [need to] put the interests of the bank (compliance) over the client (convenience). They need to 'sell' and market compliance in the same way as they sell products and solutions."

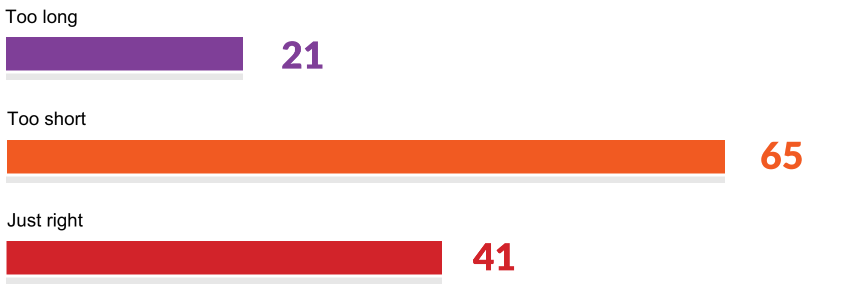
CREATING CONSISTENCY

Compliance practitioners suggest various ways to drive the right way for the front-line to act and behave. One approach is to implement and enforce a scorecard system that has both a 'carrot' and a 'stick' to manage behaviour.

At its heart, this needs to ensure bankers put the interests of the bank (compliance) over the client (convenience). They need to 'sell' and market compliance in the same way as they sell products and solutions.

Compliance practitioners must reinforce this type of behaviour with training which is more targeted and relevant

IS THE JAIL TIME SO FAR GIVEN TO PRIVATE BANKERS TOO LONG OR TOO SHORT? (by number of votes)



Source: Hubbis Compliance in Asian Wealth Management Forum 2017, Singapore

to support RMs in applying the right behaviour. It must also be delivered by specialists in the field, and offer readily-available FAQs on the topic to allow ease of navigation around it.

For, example, RMs need to be clear that if a client's Common Reporting Standard (CRS) self-declaration, for example, doesn't match an RM's own due diligence checks, it is a basis to file a suspicious transaction report (STR).

The same applies if an RM believes a client has committed a tax-related offence. Bankers used to just advise the client to seek independent tax advice and consider this a sufficient discharge of any further obligations. But since tax offences are largely now considered as predicate offences under money laundering laws, lodging an STR is essential.

An RM also needs to highlight to the client the inconsistency and then work with them to create a clear picture. A simple question to the client might be to ask if certain circumstances have changed; this would be a starting point to delve into and fill those gaps.

When it comes to suitability requirements, RMs also need to know whether to look at the jurisdiction in which the client is physically located at the time of the trade, or just where they are domiciled.

Compliance practitioners say it is more related to the client's domicile, but the actual location could matter in some cases.

HARSHER PENALTIES

Perhaps the most effective way, however, is the stark reality of the personal accountability they face. They have clearly seen evidence of this with the growing number of individual bankers to be charged, fined and sentenced to jail in relation to the 1MDB scandal.

Such improper conduct by individuals impairs the effectiveness of a firm's compliance function to operate in the way it should.

And for the time being, while harsh penalties are not the only route to better levels of compliance, senior compliance professionals say these are likely to be the most effective. Until a senior business leader can stand in front of his or her bankers, for example, and sell the positive benefits of compliance – not just avoiding stiff penalties – a better alternative is hard to find.

One thing which would help, believe some practitioners, is if either or both of regulators and institutions re-look at compensation systems that, led by greed, motivate misconduct, or for existential reasons, cause non-compliant behaviours.

BETTER SCREENING NEEDED

Regardless of various initiatives and penalties to try to stamp out non-compliant behaviour, there needs to be consideration about the possibility of doing better 'screenings' of RMs when they are hired.

An issue with conventional screening is that it simply precludes the hiring of individuals with an adverse record.

There is little to no effort, say compliance practitioners, to investigate the more integral aspects to a banker's ethical and moral compass.

Although desirable, only better access to relevant information makes this feasible. Reference checks are barely more effective as adverse references seem to be rare in this sector.

Best practice for internal recruitment, or even external firms looking to place candidates, should be to perform a cognitive screening test, with situational assessments in order to provide a deeper lens into how an RM thinks and acts.

Further, since most screenings can only yield limited objective information, to make it effective relies on past employers being transparent. ■

Tick-box mentality no longer a compliance solution

A recent Hubbis survey of over 50 leading wealth planning and structuring experts in Asia, has highlighted the urgency of having needs-based conversations to assess the source and substance of client assets – or risk falling beneath the compliance standards required to operate today.

As the wealth management industry grapples with a move from the old way of doing business to new, more rigid and prescriptive regulatory and tax frameworks, advisers need to do a lot of work to adapt how they interact with clients to get the clarity they need to be compliant.

Many industry practitioners believe that given some much uncertainty about what information is required, advisers need to take an upfront approach.

They need to make their clients aware of the intentions of new standards and, therefore, steer them away from trying to find ways to circumvent – or even ignoring – the compliance requirements they now face. No longer can they simply follow a step-by-step, box-ticking process. The consequences are too great and the spotlight too bright. This is according to more than 50 leading wealth planning and structuring specialists in a Hubbis survey.

EDUCATION URGENCY

The importance of advisers educating their clients is highlighted by the fact that the new environment of global transparency, within which the presumption is 'offshore' accounts will be open to scrutiny.

But practitioners believe that these initiatives should have little effect for those clients that have chosen the path of planning rather than avoidance – or even concealment – from the beginning.

"We have always encouraged our clients to pursue an active engagement with the relevant authorities," says Ian Black, head of wealth solutions at AAM Advisory. "We promote the use of compliant, non-contentious planning strategies to legally minimise the impact of taxation."

And since no two clients are the same, practitioners say the new international norms further enhance the need for advisers to know their clients better.

PETER TRIGGS
DBS

Although regulations inevitably require certain procedures to be followed and specific documentary evidence to be obtained, they can never replace the use of experience and discretion by the professional managing a client's affairs.

"The challenges of regulations are lessened when dealing with financial intermediaries who have invested in good systems and people," adds Andrew Niles, business development director at Intertrust Guernsey.

"Decent and effective interpretation of the new rules will give clarity to both, the client and the adviser."

INCREASED COMPLEXITY

The new regulations also now demand more sophisticated tax and legal advice. This in turn places a much greater burden, as well as risk, on large private banks. And it is posing a big challenge for many institutions.

"The tax and legal issues for many clients maybe across four to five jurisdictions. But there is a shortage of advisers who can really add value in the in the multi-jurisdictional space," explains comments Peter Triggs, managing director, regional wealth planning at DBS Bank.

ANDREW NILES
Intertrust

The uncertainty comes from two main places, he adds: from a lack of knowledge as well as from the fact that legislation and compliance requirements are in a state of change.

Further, where clients have a number of interests across many countries, it creates a certain amount of regulatory overlap. "[This] suggests that a trusted adviser in one jurisdiction has difficulty, for regulatory reasons, providing advice in another jurisdiction. In many cases, competing and conflicting regulations can raise questions about which rules to apply," explains Black.

The problem is compounded by the increased cost associated with dealing with such complexity.

Onboarding clients therefore gets more challenging. While the procedures should be risk-based, too many institutions are insisting on 100% certainty that a customer is "clean."

The burden of going to this extreme then hampers the ability of an adviser to get the job done.

EXCESSIVE TIME BURDEN

Wealth planning specialists say that this increase in complexity and reporting all lead to a significant increase in the amount of time it takes to open new accounts and service existing clients.

Given the state of flux, there is a consensus of views that clients should consider the broader view of where the environment is headed – and plan their wealth succession or investing based on current rules. But, they must also factor in flexibility for change.

TAN WOON HUM
Shook Lin & Bok

Woon Hum Tan, partner at Shook Lin & Bok LLP, says this leads to a sense of frustration for clients.

"It is agonising for [them]. The amount of information that is required of them and the amount of time that it takes to process information is bizarre. It does not look like it will be abated any time soon.

Many clients have started to accept it as the new norm when dealing with regulated advisers from international financial centres."

At the same time, however, this increases opportunities – especially for more sophisticated independent asset management firms and multi-family offices which can deliver on the promise of a holistic approach to wealth management. ■

Confronting the compliance burden

Our 5th annual event for the compliance community in Asian wealth management was an important and timely gathering in Singapore of 300-plus senior practitioners across all segments of the industry.

Intense regulatory scrutiny and complexity is the new norm in Asian private banking and wealth management.

In the wake of challenges stemming from tax-related initiatives, scandals like 1MDB and control failings like those at BSI, Falcon Private Bank and others – organisations of all types and sizes are grappling with how to stay compliant, yet in way which also ensures their business remains viable.

This is not only due to the volume and complexity of the rules themselves. Trying to implement new processes, systems and people, for instance, is impacting the business from the perspective of the required time, resources and investment to stay compliant.

Encouraging RMs and client advisers to 'live' KYC/AML and related requirements – rather than need to be forced to follow them – is a key goal for many senior management and heads of compliance.

There are ever-louder calls from within the industry for the focus to be on formulating more practical and operationally-feasible regulations. There are various other potential solutions.

Standardisation coupled with IT solutions can alleviate certain aspects of the burden and the need for more headcount. As can greater collaboration across the organisation, along with a greater effort by front-line staff to play their part as the 'first line of defence'.

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There is also growing belief among industry insiders that compliance needs to evolve. It should no longer be a departmental function, but rather an attitude, a culture, a mind-set.

Yet one of the biggest complaints heard across heads of businesses and compliance teams, however, continues to be the challenge in finding enough competent and experienced personnel to fill the roles that have been created.

Those firms which can find a way operationally to deal with the requirements will potentially create a competitive advantage, simply by them being able to think more critically and actively. ■


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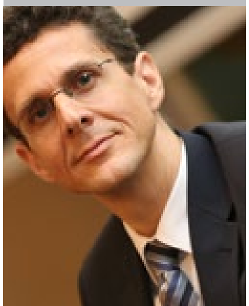
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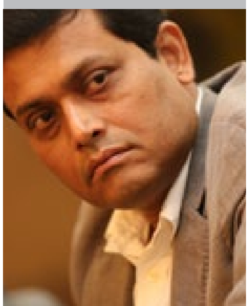
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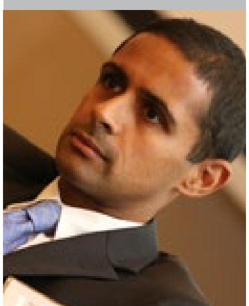
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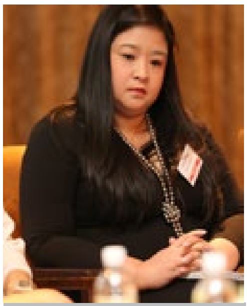

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Trying to solve the compliance conundrum

A survey of delegates for Hubbis' 5th annual Compliance in Asian Wealth Management Forum 2017 in Singapore reveals the impact of the overlapping regulatory and compliance demands on institutions across all segments of the industry – but highlights some practical ways to address these in a more effective and less time-consuming way.

The burden of compliance in Asian private banking and wealth management continues to weigh heavily on the ability of institutions of all sizes and types to operate profitably.

This is not only due to the volume and complexity of the rules themselves. The subsequent challenges in terms of implementing new processes, systems and people, for instance, are impacting the business from the perspective of the required time, resources and investment to stay compliant.

Such an outcome is perhaps inevitable, given that regulations have piled-up year after year since 2008.

Today's cost of account-opening, as one example, has become very high as a result. This is not a good sign for either clients or banks.

As a result, there are calls from within the industry for the focus to be on formulating more practical and operationally-feasible regulations.

There are various other potential solutions. Standardisation coupled with IT solutions can alleviate certain aspects of the burden and the need for more headcount. As can greater collaboration across the organisation, along with a greater effort by front-line staff to play their part as the 'first line of defence'.

There is also growing belief among industry insiders that compliance needs to evolve. It should no longer be a departmental function, but rather an attitude, a culture, a mind-set.

This is all reflected in the views of over 140 senior practitioners – who responded to a Hubbis survey – representing a range of local and international private banks, retail banks, IFAs and independent firms plus multi-family offices.

5 top challenges in 2017

- *Dealing with CRS, AEOI*
- *Client onboarding and meeting KYC, AML requirements*
- *Over-regulation and excessive documentation*
- *IT automation of compliance processes*
- *Ensuring adherence to processes and rules by the front-line*

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MULTI-DIMENSIONAL CHALLENGES

Over 40% of respondents said they see tax and transparency-related initiatives as presenting the biggest challenge for the year ahead.

The Common Reporting Standard (CRS) and Automatic Exchange of Information (AEOI), in particular, are top of mind for many practitioners, with AML and KYC important concerns too. This is not only from the angle of institutions understanding their obligations and implementing the right framework – but also in getting clients to co-operate and share the required information to enable firms to report properly on CRS.

In line with this, encouraging relationship managers (RMs) and client advisers to 'live' KYC/AML and related requirements – rather than need to be forced to follow them – is a key goal for many senior management and heads of compliance.

There continues to be an urgent need, add some practitioners, for banks to hire employees with the skill-sets necessary for KYC and AML, to identify their 'true' customers from those who are not.

STAYING IN BUSINESS

Against the backdrop of the compliance burden, practitioners say they expect to continue to struggle to find a balance between meeting these obligations and doing business. Yet those firms which can find a way operationally to deal with the requirements will potentially create a competitive advantage, simply by them being able to think more critically and actively.

Protecting the clients' interests amid all this uncertainty is another big concern within the industry.

What institutions now need from clients to ensure sufficient regulatory comfort in relation to investment suitability, domicile, source of funds, and many other aspects of onboarding and managing relationships, means they need to find a way to ensure swift execution. Banks, especially, need to focus on their client interaction, for example when it comes to account opening.

39% of respondents said it takes two to three months longer to open a new private banking account for a client today in comparison with five years ago – based on the increased need to perform the necessary checks and due diligence. For 29%, it is up to a month longer. Further, it has become harder to win clients. The administrative burden for a client to switch to a new bank has in itself become a barrier to entry.

Inevitably, these issues – and costs – are felt most within smaller and independent firms. But all market players are feeling the impact of this on the bottom-line, not helped by the uncertainty in markets and sluggish sales.

10 ways to tackle compliance challenges

1. *Build a good corporate culture via clear corporate governance and knowledge of the entire business*
2. *Top-down commitment by senior management*
3. *Compliance should make business decisions, with the front-office in mind*
4. *A higher level of knowledge within compliance teams about the clients' businesses and industries*
5. *More frequent feedback from the compliance department on the common issues holding back the process to move forward*
6. *More standardisation and IT automation in internal processes*
7. *Outsource compliance to third parties and pay for access to industry tools and platforms*
8. *Increase internal communications and cooperation between all stakeholders*
9. *Greater cooperation between banks themselves*
10. *More channels for compliance teams to engage regulators directly – for example, for clarity on new rules and guidelines*

LACKING CLARITY

Even when firms do comply, the strictness and complexity of the regulatory criteria, combined with aggressive timelines in some cases, makes it difficult for institutions to keep up.

This is not helped by different expectations by regulators in regards to the suitability controls which need to be implemented. Plus, some practitioners are worried about what they describe as "unclear regulatory guidelines and circulars with generic concepts instead of specific requirements".

52% **Respondents who said their internal compliance team is two to four-times larger today than three years ago.**

SIZE MATTERS

In many cases, wealth managers have been forced to increase the size of their compliance teams in an effort to keep up with the pace of regulatory reform. 52% of respondents said their internal compliance team is two to four-times larger today in terms of headcount than it was three years ago.

One of the biggest complaints across heads of businesses and compliance teams, however, continues to be the challenge in finding enough competent and experienced personnel to fill the roles that have been created.

Firms have therefore also been forced to call on support staff to help fulfil compliance requirements, say practitioners. Generating more revenue to pay for all these resources adds further pressure to already-stretched budgets.

LIVING IN A NEW REALITY

Ultimately, a balance must be struck between both compliance/regulations and room for the business to operate. Yet it is too easy to say that this burden is a drag on performance. The shift to transparency is long overdue. Further, many of the requirements are necessary measures.

Where the gap exists, it seems, is in practitioners fully understanding how best to apply them day-to-day. The key problem, therefore, is not strictness, but instead how clear and practical the rules and guidelines are.

A key development to watch for, is which institutions(s) will have the courage to revise sales compensation schemes so that, finally, clients' interests and corporate interests are aligned. This ultimately calls for the disintermediation of traditional distributors. As one respondent puts it: "The game is changing and in order for it to be advantageous, corporates have to look to connect with the client directly."

On a mission to educate Asia

Nick Pollard explains the drive by CFA Institute to boost the number of certified investment professionals across Asia, amid a broader goal of raising professional standards.

An investment professional in Hong Kong wants to conquer the world; well, maybe not quite. But Nick Pollard has a visions to enlist an army of professionals to follow his lead and become part of a growing global network aimed at improving standards in the investment industry.

As managing director, Asia Pacific of CFA Institute, one of Pollard's mandates is to grow his organisation's membership. In particular, this means taking professional examinations.

His goal, quite simply, is to make every investment professional in Asia a CFA charterholder.

"The CFA designation is the badge of achievement in the investment management profession and represents a deep knowledge of all investment protocols, a commitment to ethics and a passion for always putting investors first," he explains.

In line with this, CFA Institute aims to continue to develop future professionals with the necessary technical skills, knowledge and ethics, and with a clear understanding of the role of investment management in society.

"We pride ourselves in helping investors understand that when they place their trust in a CFA charterholder, they can achieve peace of mind knowing that they are in the hands of a professional with the proven expertise and integrity to meet their investment goals and that this person put their interests first," explains Pollard.

REGIONAL AMBITION

His role is to spearhead the efforts of this global association of investment professionals in its mission across Asia to advance the profession for the ultimate benefit of society.

In particular, he foresees a healthy growth coming from the fast-growing markets of China and India. "Asia Pacific is the biggest region of CFA Institute for CFA exam candidates, and China is now the number-one country; it's bigger

NICK POLLARD
CFA Institute

than the US," he explains. 2016 was the first year that this has happened and it will just get bigger, he predicts.

"There is lots of growth potential here and I have a good team who are working on growing that footprint, even more so than we have done before.

With offices already in Mumbai and Beijing, he says the association is thinking about another presence on the ground in mainland China.

"Worldwide, we estimate that our core target market of portfolio managers, research analysts, etc barely has 10% of people in these positions holding a CFA charter qualification, so there is a lot of upside," adds Pollard.

India is a good case in point, as is China, with its significant and growing fund management business.

PEDIGREE

Pollard knows a d thing or two about learning and professional development.

He previously served as CEO of Coutts' Asia division and most recently was head of international learning and professional development for the private bank's international business.

Overall, his career spans more than 30 years across banking, wealth management and talent development.

His appointment at CFA Institute almost a year ago followed the opening of new offices in Beijing and Mumbai in 2015, reinforcing the commitment to developing future professionals, delivering member value and building market integrity within key, fast-growing regional markets.

OVERCOMING HURDLES

Yet Pollard and his team do face large challenges in getting their message across to businesses and institutions in Asian countries where there is an adverse mind-set to change.

"Some of the larger institutions in Asia already understand the importance of the CFA designation, and many insist on it," he says. "But others are less aware of it and this is where we have to educate and explain the advantages of the certification."

Another hurdle Pollard faces is that, compared with the US and Europe, fewer employers in Asia are willing to fund the cost of the CFA programme or give staff the necessary time off to study for the qualification.

"We have to make it clear that if they help their employees in these ways, they will see the benefits," he urges.

Passing all three levels of the CFA exams requires dedication and time, but the value is clear to Pollard.

"Hong Kong has the largest number of charterholders in Asia, which is a good thing for the local finance sector," he says. "And we shouldn't under-estimate the importance of the designation to building a credible investment industry and a credible workforce in emerging Asian markets like Vietnam."

POSITIVE SIGNS

Pollard's vision is supported by underlying growth in the financial sector across the region.

Asian governments, for example, are focused on expanding the local talent pool.

Practically every 25-year old in Asia who wants a career in investment management now recognises the importance of the qualification, he explains.

"The credential is globally recognised so it has a passporting effect, helping charterholders in Asia to work overseas," adds Pollard. "Global credibility is a very strong motivator for people in Asia to do the CFA Program, whether they want to stay at home or travel."

While he doesn't want to place an upper limit on charterholders in Asia, the ultimate goal for CFA Institute is bold one: to have 100% coverage of every relevant employee in every firm in the investment industry. ■

"Asia Pacific is the biggest region of CFA Institute for CFA exam candidates, and China is now the number-one country; it's bigger than the US."

Middle East
Wealth Management

Developing greater capability in the Middle East

Hubbis' 2nd annual event in Dubai for the industry in the GCC highlighted the need for firms to focus on building modern, digital-friendly platforms where better-trained advisers consistently act and behave in their clients' best interests. This assumes the regulatory agenda in each market doesn't stifle the opportunities for growth.

The wealth management firms which will be most successful over the next five years in the Middle East will be those which embrace digital and put in place modern, robust technology platforms.

The ability to clearly demonstrate alignment with clients' interests is also a critical component – which ties in to the need to deliver the right client outcomes. This can be achieved, suggest various market practitioners in the GCC, via a mix of independent and technical financial advice which has the objective to maximise value for the client.

More specifically by client segment, a successful model must focus on the newer millionaires, as well as small-business owners.

Family governance solutions will be a key way to access and win the trust of many families which are concerned about their businesses when they are no longer around.

At the same time, moving the industry forward in this way requires some important changes – for example, in the way advice is given, advisers are trained and remunerated, new talent is developed, clients are educated, and various aspects of the market are regulated.

SOLUTIONS, NOT PRODUCTS

Several elements of these success factors for a sustainable wealth management offering in the Middle East are dependent on firms being able to shift towards selling solutions, not chasing revenue through single transactions.

And there are specific ways that business leaders and wealth managers can achieve this.

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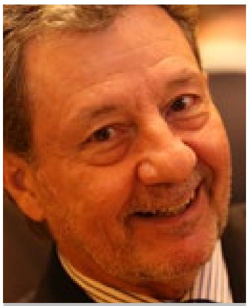
Inevitably, it should start with a better understanding of clients' needs – and then an ability to deliver what they want.

To do this requires effective relationship selling rather than transaction selling. At the same as doing this, wealth managers can educate their clients on how to think and act – depending on their needs and goals – when it comes to their portfolio.

An important building block is improved training and development of advisers. Further, having robust minimum qualification levels for the industry would, said some respondents, help to enhance the reputation of the industry.


Abhra Roy
Infosys Finacle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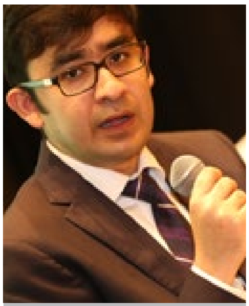
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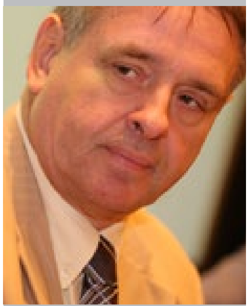
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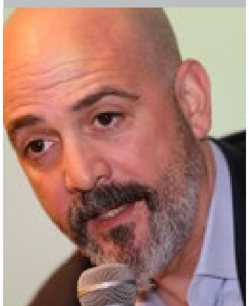
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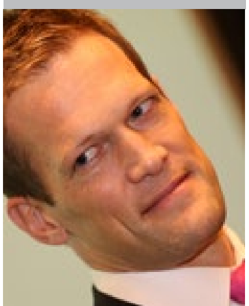
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Anthony Jaganathan
Emirates NBD


Sivadeet Baruah
Oman Insurance

The role for insurance companies in capturing GCC wealth

Everyone in wealth management talks about the importance of knowing clients well enough to differentiate themselves and 'add value'. But this requires a commitment to quality of advice and a conducive business model to build trust over time.

Panel speakers

- ***Sivadeet Baruah**, Head of Individual Life, Oman Insurance*
- ***Walter Jopp**, Chief Executive Officer, Middle East, Zurich International Life*
- ***Philip Cernik**, Chief Marketing Officer, Friends Provident International*
- ***Rajesh Sethi**, Chief Executive Officer, Noor Takaful*

Giving clients what they want is far easier said than done when dealing with Asia's wealthy.

While clients' needs are getting more complex, yet their access to information is lightning fast and their understanding of what's available more sophisticated, too many wealth managers still approach them in a short-term fashion.

It is not just about getting more AUM, but rather understanding the emotional value they place on their wealth. Without this, the client won't be able to differentiate the approach that one firm takes compared with another.

This requires firms – and individual bankers and advisers – who care, plus are competent. They need to know the client properly, including their needs and aspirations, to be able to help them achieve their goals.

Meanwhile, while knowing the customer is a fundamental principle of good wealth management, it is important for organisations and bankers to also know themselves.

This translates to understanding their core competence, and ensuring they have what it takes to deliver to customers what they are looking for.

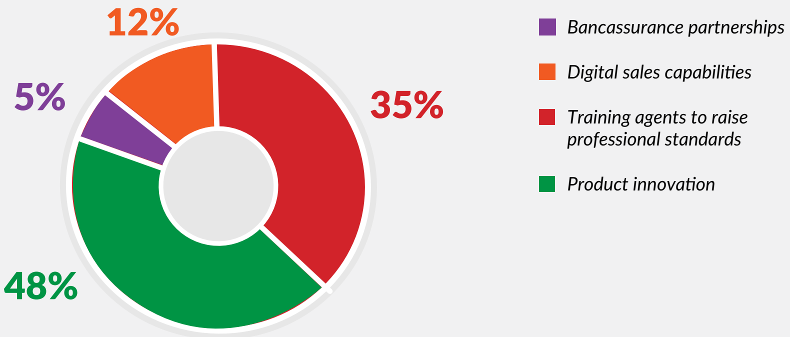
Further, with an environment which is increasingly holding advisers accountable for any advice they give to a client, this should lead to a change in the way they approach the relationship and what they recommend.

This is according to several senior industry practitioners, representing a mix of organisations across private banking, retail banking, single and multi-family offices, insurance and fiduciary services – speaking at the 7th annual Hubbis event in Hong Kong.

Sivadeet Baruah, Oman Insurance

hubbis

WHAT SHOULD BE THE BIGGEST PRIORITY FOR LIFE INSURANCE COMPANIES TO GROW IN THE MIDDLE EAST OVER THE NEXT 5 YEARS?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

WELL-PLACED

Ultimately, adding value means showing 'tough love' to prevent a client from panicking and either going into 'flight' or 'freeze' mode depending on market movements.

Even if this means doing less business with a client, it engenders more trust in the long run. After all, risk management is key to preserving wealth.

In line with this, there are clear signs of slow but gradually increasing demand for independent/external asset managers and multi-family offices.

The kind of flexibility and deeper understanding of client expectations which characterises many of these organisations means they are able to offer a variety of solutions.

This includes meeting clients' needs for services from their wealth manager which might include, for example, pre-IPO investments, leverage and financing for non-bankable assets and club deals.

Further, other services that clients are seeking include succession planning. And for entrepreneurs, in particular, corporate finance solutions are relevant.

What should also be increasingly relevant are insurance products to offer clients their much-needed protection as part of a needs-based conversation. And wealth managers need to step out of their comfort zone to have such a discussion.

Walter Jopp, Zurich International Life

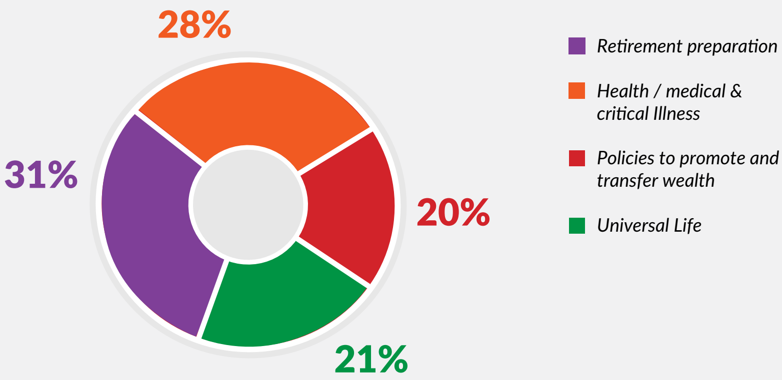
At the other end of the spectrum, industry practitioners believe that some of the big global banks are also in a position to add value alongside the boutique wealth providers.

This is viable with sharper segmentation, based not just on size of client portfolio but also on their sophistication, life stage and generational needs.

At the same time, although some HNW clients remain with the international banks due to reputation and credit

Philip Cernik, Friends Provident International

WHICH OF THE FOLLOWING SOLUTIONS OFFERS THE BIGGEST OPPORTUNITY FOR INSURERS IN THE MIDDLE EAST?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

risk, local institutions are capitalising on the varied needs of the generation of 'new' money.

A REGULATORY FAVOUR?

For any model, however, there is little doubt about the sustainability of a more holistic approach to money management that includes banking, borrowing, investing and insurance, according to speakers.

This needs to be done within the context of an asset-based approach to charging fees.

And in this respect, some industry players believe the regulators are helping bankers to be more client-centric by fostering a culture which looks beyond transaction-based commission towards fee-based solutions.

However, this is also linked to how and why customers are behaving in a certain way – not always about how the banks charge for their services.

The mind-set among clients in Hong Kong, in particular, will take some time to change, given they are very fee sensitive.

Yet recognition for some of the independent players of the advice-based fee model comes from those clients who are also business people.
They place value in a service they consider to be of high quality.

Delivering what clients need will always enable a wealth manager to come to an understanding with a client about how they can get paid for their service.

Yet the quality of advice doesn't improve purely because of regulations; it still depends for clients on who they are dealing with. So it isn't the regime itself which is the cure, but rather the enforcement of that regime.

On the flipside, there is a feeling among some industry practitioners that over-regulation is killing private banking in Asia.
For example, concerns over what they can say to clients potentially makes bankers too frightened to deliver advice with any conviction.

This comes back to knowing the client properly. Combining this with strict adherence to the complex rules now in place is not a stumbling block.

It also becomes obvious to advisers if they are doing a good job. From a relationship level, a banker knows when they are the first call from a customer, or if they are being invited to a client's family event, or when that clients starts to share family secrets or insights.

Secondly, wealth management firms need to ensure they provide product excellence.

The regulatory-led demand for transparency means it isn't possible to charge for certain products. This requires a high degree of product excellence, therefore, to be able to make money and manage risk to the extent that clients are willing to pay for the service. ■

Rajesh Sethi, Noor Takaful

Driving positive change in Middle East wealth management

A survey ahead of Hubbis' 2nd annual event in Dubai for the industry in the GCC highlights the need for firms to focus on building modern, digital-friendly platforms where better-trained advisers consistently act and behave in their clients' best interests. This assumes the regulatory agenda in each market doesn't stifle the opportunities for growth.

The wealth management firms which will be most successful over the next five years in the Middle East will be those which embrace digital and put in place modern, robust technology platforms.

The ability to clearly demonstrate alignment with clients' interests is also a critical component – which ties in to the need to deliver the right client outcomes. This can be achieved, suggest various market practitioners in the GCC, via a mix of independent and technical financial advice which has the objective to maximise value for the client.

More specifically by client segment, a successful model must focus on the newer millionaires, as well as small-business owners. Further, family governance solutions will be a key way to access and win the trust of many families which are concerned about their businesses when they are no longer around.

At the same time, moving the industry forward in this way requires some important changes – for example, in the way advice is given, advisers are trained and remunerated, new talent is developed, clients are educated, and various aspects of the market are regulated.

These were some of the key take-aways from more than 50 senior practitioners – who responded to a Hubbis survey – representing a range of CEOs, senior management, product gatekeepers and business unit heads working at retail banks, private banks, Insurance companies, IFAs and multi-family offices.

SOLUTIONS, NOT PRODUCTS

Several elements of these success factors for a sustainable wealth management offering in the Middle East are dependent on firms being able to shift towards selling solutions, not chasing revenue through single transactions. And there are specific ways business leaders and advisers can achieve this.

5 top challenges to business growth

- *Regulations and reforms*
- *Over-dependence on brokerage and product-push models*
- *Creating the right platform and technology to ensure consistency*
- *A continued reliance (in some Middle East countries) on the oil price*
- *Geopolitical risks plus a slow global economic recovery*

Inevitably, it should start with a better understanding of clients' needs – and then an ability to deliver what they want. To do this requires effective relationship selling rather than transaction selling. Wealth managers can also educate their clients on how to think and act – depending on their needs and goals – when it comes to their portfolio.

According to some respondents, a complete shift in the organisational paradigm is a must, to keep the customer at the centre. An important building block, therefore, is improved training and development of advisers. Further, having robust minimum qualification levels for the industry would, said some respondents, help to enhance the reputation of the industry. Over time, this would also create a deeper and more competent talent pool.

BRINGING SHARIAH TO THE FORE

More education and greater knowledge levels around Shariah products is another key part of developing the wealth management offering in the Middle East. It would be beneficial to both product providers and end-clients, given that Shariah products often perform better than their conventional counterparts.

A number of respondents said this needs to be driven by specific government-led initiatives, with a healthy dose of training for advisers. But product development cannot happen in isolation of more dialogue with the potential market to define the opportunities. This might result in a more standardised Shariah offering, for example, also helping to reduce costs.

REGULATORY PRIORITIES

Respondents also pinpointed several initiatives which the region's regulators should drive, with the alignment of the interests of clients and advisers in mind:

- Greater transparency, in turn helping advisers better assess a client's needs
- Simpler and uniform regulatory guidelines – with the goal of making the life of bankers (and clients) easier
- A clear definition on how to deliver investment advice for clients inside as well as outside the UAE
- Lower initial commissions and a focus on longer-term income streams – to provide more security for advisers and better value for clients
- Stricter regulation for wealth planners and business owners who visit the UAE to tout for business and effectively default to a product-focused sale

40% **Respondents who said regulation is the biggest challenge for wealth managers based in the Middle East.**

5 key opportunities for wealth managers

- The potential to diversify clients' assets and provide more holistic advice
- Unlocking the wealth of big families in the region
- Amid the shake-up in the world order / global leadership – attracting more non-GCC based wealth
- The coming change in generational management and control of family businesses
- Capitalising on the youthful and dynamic characteristics of the market coupled with the concentration of HNW individuals in the GCC

How to evolve the IFA proposition in the Middle East

Imminent regulatory change in the UAE bodes well for the appeal – and development – of the wealth management industry and a broader range of products and services.

Panel speakers

- ***Timothy Searle**, Chairman, Globaleye*
- ***Sean Kelleher**, Chief Executive Officer, Mondial*
- ***Chris Ferguson**, Chief Executive Officer, Credence*

The financial services industry in Dubai is on the cusp of far-reaching change as the UAE appears to be preparing regulatory overhaul.

On the back of the success of UAE and Qatari stock markets (and their upgrade from Frontier to Emerging Market status), it seems fair to say that there is a whiff of modernisation and change in the air.

As the region ushers in global standards, the industry is drifting closer to a form of "twin-peaks model "in which "prudential" government (potentially the UAE Central Bank) co-exists with a body or bodies managing "conduct of business" matters.

Whether there is a drift that way or not, it is clear that the Securities and Commodities Authority (SCA) will play a major role.

SCA has already published efforts to protect consumers and regulate the system, including: first, the crafting of a definition of financial planning, which leads to expectations of the same for wealth management; secondly, the drafting of CPD guidelines; and thirdly, the definition of "fit and proper" for firms and individuals.

These publications represent the most significant changes in the region for many years. These developments will change wealth management.

Sharper segmentation [is needed], based not just on size of client portfolio but also on sophistication, life stage and generational needs

Timothy Searle,
Chairman - Globaleye

RAISING STANDARDS

The forces behind the changes include the willingness in the UAE to adopt global regulatory standards following the recognition of the UAE as an 'emerging market' in terms of stock market activities.

But an even bigger driver is the realisation within the UAE that it must reduce its economic dependence on oil and develop ancillary industries like financial services.

Wealth in the Gulf has traditionally been driven by the oil price, although Dubai's relative lack of reliance on oil enabled a diversification plan some time ago, and, as a result, it has been reasonably successful so far with current growth rates quite competitive with those worldwide.

Chris Ferguson,
Credence International

Sharper segmentation [is needed], based not just on size of client portfolio but also on sophistication, life stage and generational needs

The urgency which once applied to Dubai now applies to Saudi Arabia, for example, which continues to suffer from the low oil price.

Practitioners believe the region's financial services sector will expand even further to emerge as a financial hub, made possible via the development of global standards in all aspects of the industry.

MORE CLARITY

Going forward, industry players hope for greater clarity in the different types of financial adviser in the region.

Currently, some financial advisers work under Insurance Authority Licensing; some under SCA licensing; some under DIFC licensing, and so on. This continues to create an element of uncertainty. ■

Sean Kelleher, Mondial

An advisory proposition to enhance client engagement

Despite challenging market conditions, coming up with actionable ideas to assist bankers and end-clients is something which can help firms differentiate the quality of their advisory capabilities and capacity.

Panel speakers

- ***Appul Jaisinghani**, Head of Investment Funds, Emirates NBD*
- ***Shiraz Habib**, Head of Investment Products & Solutions, National Bank of Abu Dhabi*
- ***Deepak Ahuja**, Director, Wealth Management, Bancassurance & Mortgages, RAKBANK*
- ***Gifford Nakajima**, Head of Wealth Development - UAE and MENA, HSBC Bank*

Inevitably, investment professionals need to work harder against a backdrop of market uncertainty and volatilty to eek out information to facilitate relevant conversations with clients.

But this is particularly important in light of the objectives that clients have to keep their portfolios fresh.

And in doing so, it helps the front-line to demonstrate that they – and their institution – are in touch with the market, in turn enhancing client engagement, according to product gatekeepers and fund selectors in the Middle East, from a mix of local and international retail and private banks, at a roundtable in Dubai.

Winning client mindshare in this way shouldn't be under-estimated, say practitioners.

Appul Jaisinghani, Emirates NBD

PORTFOLIO CONVICTION

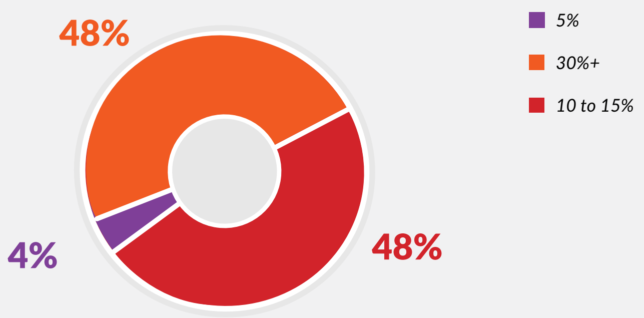
It has been notable for gatekeepers in 2016 that there is no magic solution; different products have worked at different times during the past 12 months.

While high yield instruments generated good returns at a certain point, at other times senior loans were the place to be. And some insurance-linked securities also found some favour.

More broadly, gatekeepers are keen for clients to become more diversified stay invested – which would have earned them higher returns in 2016 than trying to make big asset allocation calls.

More specifically in terms of advising clients ahead of 2017, there is expected to be a more active engagement of alternatives, including real estate, private equity and hedge funds.

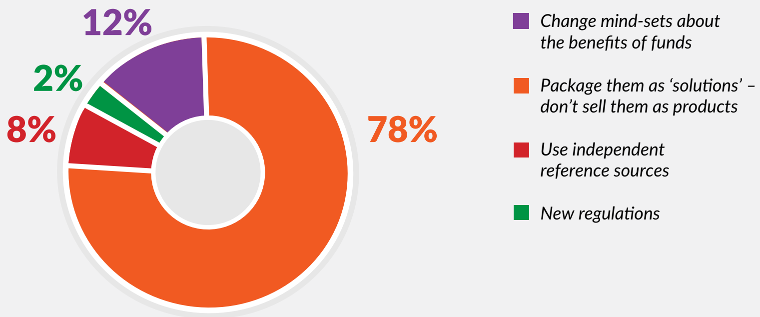
WHAT WILL BE THE PENETRATION OF MANAGED SOLUTIONS AND DPM WITHIN CLIENT PORTFOLIOS IN 5 YEARS' TIME?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

Deepak Ahuja, RAKBANK

WHAT WILL BE MOST EFFECTIVE IN GETTING INVESTORS TO BUY MORE FUNDS?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

For various reasons, gatekeepers say it is easier for bankers to demonstrate portfolio value in the alternatives space.

BANKING ON THE RIGHT PARTNERS

For many fund selectors, what they say will be valuable for them going forward is on-the-ground support by asset management firms.

There is a requirement, say the gatekeepers to eyeball a portfolio manager for a fund on a quarterly basis, for example. And for some banks, this type of accessibility is becoming increasingly important.

Yet this is a difficult commitment for some foreign asset managers to make. A combination of the market

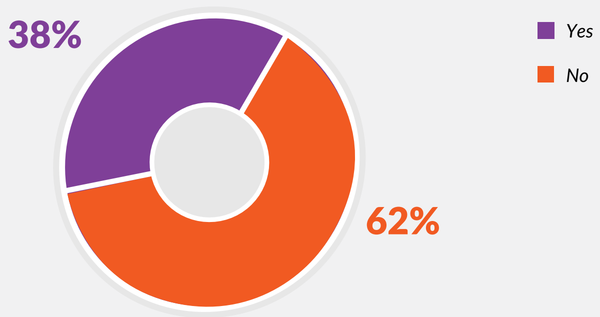
Shiraz Habib, National Bank of Abu Dhabi environment, limited fund penetration and tough regulatory landscape inevitable lead to them having second thoughts about entering the GCC.

To cover the region properly they need sufficient bandwidth, yet the distribution opportunity in the UAE, for example, doesn't scale up in many cases.

Further, some gatekeepers expect the majority of fund flows in 2017 will more likely go to some of the bigger fund houses, with more prominent brands and names which resonate with clients. ■

Gifford Nakajima, HSBC Bank

DO YOU THINK CLIENTS IN THE MIDDLE EAST ARE INTERESTED IN PAYING FOR ADVICE?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

WILL THE CURRENT REGULATORY REFORMS HELP THE DEVELOPMENT OF THE LOCAL ASSET MANAGEMENT MARKET?

Source: Hubbis Middle East Wealth Management Forum 2017, Dubai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Taking wealth management forward in the Middle East

Everyone in wealth management talks about the importance of knowing clients well enough to differentiate themselves and 'add value'. But this requires a commitment to quality of advice and a conducive business model to build trust over time.

Giving clients what they want is far easier said than done when dealing with Asia's wealthy.

While clients' needs are getting more complex, yet their access to information is lightning fast and their understanding of what's available more sophisticated, too many wealth managers still approach them in a short-term fashion.

It is not just about getting more AUM, but rather understanding the emotional value they place on their wealth. Without this, the client won't be able to differentiate the approach that one firm takes compared with another.

This requires firms – and individual bankers and advisers – who care, plus are competent. They need to know the client properly, including their needs and aspirations, to be able to help them achieve their goals.

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This translates to understanding their core competence, and ensuring they have what it takes to deliver to customers what they are looking for.

Further, with an environment which is increasingly holding advisers accountable for any advice they give to a client, this should lead to a change in the way they approach the relationship and what they recommend.

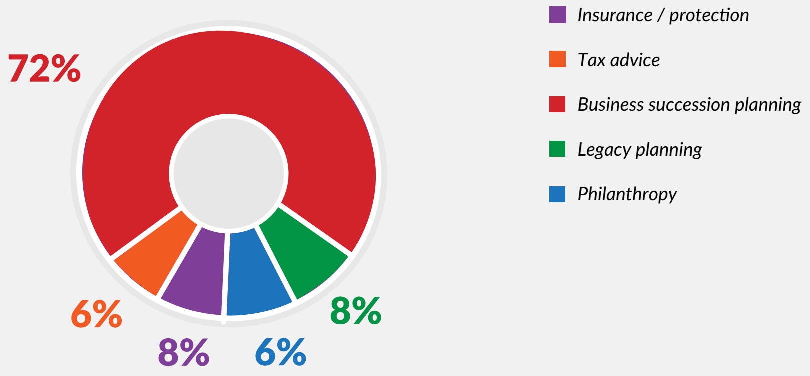
This is according to several senior industry practitioners, representing a mix of organisations across private banking, retail banking, single and multi-family offices, insurance and fiduciary services – speaking at the 7th annual Hubbis event in Hong Kong.

Panel speakers

- ***Michael Chahine**, Founder & Chief Executive Officer, Nexgen Desert Green Consultancy*
- ***Karim Ghandour**, Founder & Chief Executive Officer, LegacyLine Family Office*
- ***Shainav Gupta**, Director, Institutional Sales, Amicorp Group*
- ***Stijn Janssen**, Head of Tax, Middle East, Withers*
- ***Yann Mrazek**, Managing Partner, M/Advocates of Law*
- ***Fiona McClafferty**, Senior Manager, Deloitte Private, Deloitte LLP*

Michael Chahine,
NEXGEN Desert Green

WHICH OF THESE IS MOST CRITICAL FOR MIDDLE EAST FAMILIES TODAY?



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WELL-PLACED

Ultimately, adding value means showing 'tough love' to prevent a client from panicking and either going into 'flight' or 'freeze' mode depending on market movements.

Even if this means doing less business with a client, it engenders more trust in the long run. After all, risk management is key to preserving wealth.

In line with this, there are clear signs of slow but gradually increasing demand for independent/external asset managers and multi-family offices.

The kind of flexibility and deeper understanding of client expectations which characterises many of these organisations means they are able to offer a variety of solutions.

This includes meeting clients' needs for services from their wealth manager which might include, for example, pre-IPO investments, leverage and financing for non-bankable assets and club deals.

Further, other services that clients are seeking include succession planning. And for entrepreneurs, in particular, corporate finance solutions are relevant.

What should also be increasingly relevant are insurance products to offer clients their much-needed protection as part of a needs-based conversation. And wealth managers need to step out of their comfort zone to have such a discussion.

Karim Ghandour, LegacyLine Family Office

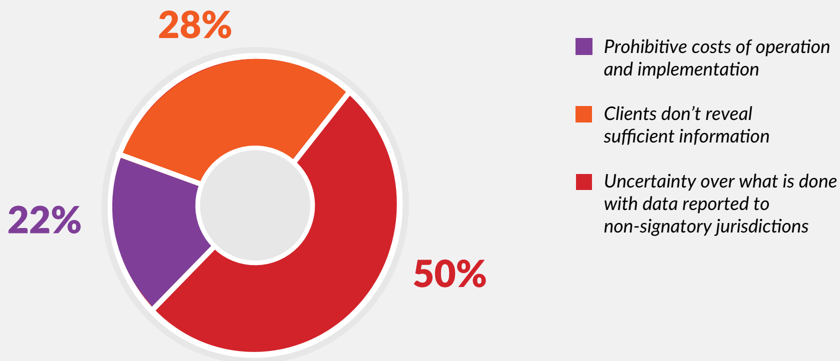
At the other end of the spectrum, industry practitioners believe that some of the big global banks are also in a position to add value alongside the boutique wealth providers.

This is viable with sharper segmentation, based not just on size of client portfolio but also on their sophistication, life stage and generational needs.

At the same time, although some HNW clients remain with the international banks due to reputation and credit risk, local institutions are capitalising on the varied needs of the generation of 'new' money.

Shainav Gupta, Amicorp Group

WHAT'S THE BIGGEST CONCERN WHEN ADVISING FAMILIES AROUND AEOI AND CRS?



Source: Hubbis Middle East Wealth Management Forum 2017, Dubai

A REGULATORY FAVOUR?

For any model, however, there is little doubt about the sustainability of a more holistic approach to money management that includes banking, borrowing, investing and insurance, according to speakers.

This needs to be done within the context of an asset-based approach to charging fees.

And in this respect, some industry players believe the regulators are helping bankers to be more client-centric by fostering a culture which looks beyond transaction-based commission towards fee-based solutions.

However, this is also linked to how and why customers are behaving in a certain way – not always about how the banks charge for their services.

Stijn Janssen, Withers

The mind-set among clients in Hong Kong, in particular, will take some time to change, given they are very fee sensitive.

Yet recognition for some of the independent players of the advice-based fee model comes from those clients who are also business people.
They place value in a service they consider to be of high quality.

Yann Mrazek, MAdvocates of Law

Delivering what clients need will always enable a wealth manager to come to an understanding with a client about how they can get paid for their service.

Yet the quality of advice doesn't improve purely because of regulations; it still depends for clients on who they are dealing with. So it isn't the regime itself which is the cure, but rather the enforcement of that regime.

On the flipside, there is a feeling among some industry practitioners that over-regulation is killing private banking in Asia.
For example, concerns over what they can say to clients potentially makes bankers too frightened to deliver advice with any conviction.

This comes back to knowing the client properly. Combining this with strict adherence to the complex rules now in place is not a stumbling block.

It also becomes obvious to advisers if they are doing a good job. From a relationship level, a banker knows when they are the first call from a customer, or if they are being invited to a client's family event, or when that clients starts to share family secrets or insights.

Secondly, wealth management firms need to ensure they provide product excellence.

The regulatory-led demand for transparency means it isn't possible to charge for certain products. This requires a high degree of product excellence, therefore, to be able to make money and manage risk to the extent that clients are willing to pay for the service. ■

Fiona McClafferty,
Deloitte LLP

People and firms who supported this publication

We appreciate the participation and contribution of key individuals and organisations across the wealth management community to the content in this publication.

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